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The State of Small Business and Entrepreneurship in Atlantic Canada


1991 First Annual Report
on Small Business

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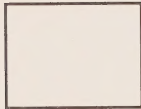


Atlantic Canada
Opportunities
Agency

Agence de
promotion économique
du Canada atlantique

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1991

First annual report on small
business by the Atlantic Canada
Opportunities Agency

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First Annual Report on Small
Business by the Atlantic Canada
Opportunities Agency

MESSAGE FROM THE MINISTER

Honourable Jean G. Charest,
Minister for the Atlantic Canada Opportunities Agency
and
Minister of Fisheries and Oceans

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MESSAGE FROM THE MINISTER

**Honorable John C. Crosbie,
Minister for the Atlantic Canada Opportunities Agency
and
Minister of Fisheries and Oceans**

It is my pleasure to present the first edition of The State of Small Business and Entrepreneurship in Atlantic Canada.

Small enterprises are an important part of the economic fabric of this country. They are flexible, easily adaptable to changing markets and new technologies and require limited capital. This is especially the case in Atlantic Canada where small businesses employ more than one-third of the people, and account for three-quarters of all the jobs created in the decade to 1988.

Small enterprises are the building blocks which will allow the federal government to achieve its goal of national prosperity through competitiveness. Atlantic Canada needs more new businesses, more entrepreneurs, more new technology and innovation, more skilled workers, and a more outward global perspective. To accomplish all of this, we need to create a climate which will enable Atlantic Canadians to reach higher levels of competitiveness and a stronger sense of future economic and social prosperity.

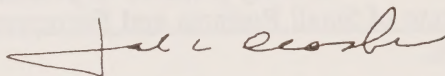
Helping people succeed in business is central to ACOA's mandate which is why we were happy to sponsor the publication of this 1991 edition.

This report highlights the contributions that small business makes to our economy, including a 10-year analysis of the trends and dynamics which define its emerging role and relationship to other elements of the economy. It profiles entrepreneurship, examines the status of

entrepreneurship education in the school system and provides in-depth information on the people who start businesses.

It discusses the role of the environment and public support in helping the small business sector grow and presents entrepreneurship as a viable career option for more Atlantic Canadians.

I am sure that people who have an interest in small business and entrepreneurship in the Atlantic Region will find this report both interesting and beneficial.

A handwritten signature in dark ink, appearing to read "John C. Crosbie". The signature is fluid and cursive, with a large, stylized initial "J" that extends to the left.

John C. Crosbie

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INTRODUCTION

In the quest to initiate economic development policies for the 1990s, it has become increasingly apparent that many of the assumptions on which governments have built their programs over the past 40 years or so are no longer valid. Nowhere is this more true than in the case of small, entrepreneurial firms, which are now recognized around the world to be an integral element in any successful policy mix. This is true for two important reasons: small firms, particularly new firms, have created almost all the new jobs over the course of the past decade; and the entrepreneurial culture that flourishes in small firms holds important lessons for the rejuvenation of all sectors of the economy. This is especially true in the Atlantic provinces, where the need for fresh thinking on economic development has never been more urgent.

Yet, very little is known about small firms. There are so many of them, they are all so different, they come and go with such dizzying speed and their competence is so extraordinarily variable, that most people find it difficult to relate to them. There is therefore a strong need to provide a solid knowledge base that will enable all the groups that are interested in small businesses and entrepreneurship to understand them better, so that they can help them more effectively to fulfil their potential.

For these reasons, the Atlantic Canada Opportunities Agency decided to commission a benchmark study that will define small business and entrepreneurship in the region, outline their potential and place them in the context of the greater environment within which they operate. This is the first in an annual series; future reports will probe small businesses and entrepreneurship to deepen and broaden our knowledge of this critical element in the economy.

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EXECUTIVE SUMMARY

A TURNING POINT FOR ATLANTIC CANADA

Atlantic Canada has been the focus over a long period for a series of determined attempts to eradicate the persistent disparity between the economic prospects of the region and of Canada as a whole. There is now broad agreement that these attempts at regional development have fallen short of achieving their ambitious objectives. The good intentions behind regional assistance appear to have created a psychology of dependency instead of encouraging a spirit of initiative. The challenge now is to cultivate that spirit of initiative.

In the second half of the 1980s, the federal and provincial governments in the region started developing a new approach to regional development. The philosophical core of this approach is a commitment to nurturing the entrepreneurial spirit of the people in the region. The emphasis in its prescriptions is on advice, training and education. There is still a significant role for direct financial contributions to economic development, of course, but the priority is now shifting to the development of people, the most important natural resource in a region that has for so long focused on fish, forests and minerals.

The Entrepreneurial Wave

Entrepreneurship has come to be seen, in the last decade, as one of the most promising routes to greater employment and long-term competitiveness. [It should be noted here that entrepreneurs and small businesses are not the same thing; entrepreneurship implies a commitment to growth that does not exist in many small firms, which are quite happy to remain small. Yet the resourcefulness and risk-taking associated with entrepreneurship mean that it is rarely found in large organizations, no matter how committed they are to growth.]

Small, entrepreneurial firms have taken their place as vital contributors to general economic health. Their strengths are their flexibility, their resourcefulness, their efficient use of limited resources and their sensitivity to the market. Their

weaknesses are that they are stretched too thin and often do not possess the depth of management or knowledge to compete on an even footing with large, multinational firms. In other words, small firms function best when big firms find it difficult to compete with them.

Entrepreneurs cannot do it alone, however. They need a hospitable and supportive environment, along with the necessary infrastructure, if they are to flourish. Without a co-operative approach that recognizes the immense value of what small and entrepreneurial companies have to offer, without the vision to see what entrepreneurial small firms *can* become, the inherent weaknesses that so often make young firms falter or fail will effectively block the development of a dynamic small-business sector.

Demographics

Over the past 30 years, the growth in Atlantic Canada's population was just over half Canada's average of 1.4% a year, resulting in a shrinking of its share of the country's population to 8.8% from 10.4%. The lag in the region's growth rate is entirely attributable to migration. Natural population growth was almost identical with that of Canada's over the 30 years, but Canada gained an average of 0.44% a year from migration, while the region lost an average of 0.35% a year. A major reason for this migration was the lack of available jobs in the region, or at least the perceived lack of opportunity, with the result that many of those who left were of working age.

The labour force

Despite this slower growth in population, the region's labour force grew more quickly than the national average, because the participation rate increased rapidly. Since the region's growth in employment matched the nation's, the net effect of these trends was that the gap between the jobless rates in Atlantic Canada and the country as a whole, rose from 1.9 percentage points in 1966 to 4.0 points in 1981, then on to 4.9 points in 1989.

One significant reason for this higher incidence of unemployment is the seasonality of employment. In 1989, the

seasonal component of employment at its peak was 7% in Canada, compared to 17% in Atlantic Canada. Another regional phenomenon is the incidence of part-time work, which has risen across the country but more rapidly in Atlantic Canada. The problem is that much of this part-time work is involuntary, particularly in the Atlantic provinces, where 37% of the part-timers would prefer full-time jobs, compared to 21% in the rest of the country.

The net effect of these trends is a severe underutilization of the work force. This leads, in turn, to an even more serious phenomenon: many workers become discouraged and withdraw from the labour force altogether because they believe no jobs are available. The Atlantic provinces, with only an 8% share of the total labour force, account for more than a third of all the discouraged workers in the country. If the Atlantic region's labour force were assumed to be based on the same participation rate as Ontario's, for example, the "real" unemployment rate based on this hidden labour force and the discouraged workers would be 25% in the region.

Economic Development

Productivity in the Atlantic region has improved in the past 25 years, but it is still significantly below that of the country as a whole. In the mid-1960s, output per worker in the region was less than 73% of the nation's; by 1986, it had risen to 86%, although it declined to less than 82% in the following three years.

The major impetus behind this improvement has been the federal government. In 1988, federal expenditures in the Atlantic provinces represented 41% of the region's Gross Domestic Product, double the share of the rest of country and significantly higher than the federal share in the region of 34% in 1961. During the same period the *earned* income per capita increased to only 70% of the national average from 65%.

Education and Training

Perhaps the biggest challenge to the region is to refine the education system. Almost half (48%) of Atlantic Canadians have difficulty meeting every-day reading demands or in

performing numerical operations for every-day purposes. In Canada, the corresponding figure is 38% for both numeracy and literacy. This low level of basic competence inevitably limits the capacity of the labour force to adjust to change.

THE POWER OF SMALL FIRMS

Small firms employ more than a third (36%) of the people in the Atlantic provinces, and they accounted for three-quarters of all the jobs created in the decade to 1988.

In the country as a whole, small firms accounted for 37% of employment in 1987 and 81% of the new jobs created during 1979-88. Ontario's small firms employed the smallest share of the total workforce in 1987, at 34%, and accounted for 74% of the new jobs during the 10 years to 1988. By contrast, small firms play a larger role in Quebec and the West, where they employed almost 40% of the workforce in 1987 and accounted for 90% of the new jobs during 1979-88.

Small firms in Atlantic Canada are more heavily weighted toward micro businesses (those that employ fewer than 5 people) than the rest of the country; they accounted for 78% of all small firms in 1987, compared to 76% in Canada; they employed 8.4% of the region's total workforce in 1987, compared to 7.8% in Canada. They also accounted for 49% of all the new jobs created in Atlantic Canada during 1979-88 compared to 45% in Canada.

By contrast, the larger small firms (those employing more than 20 people but less than 100) are relatively weak in the Atlantic region, generating only 9% of the new jobs, compared to 14% in Canada. These larger small firms are critical to an economy, because they are generally the most growth-oriented and supply the candidates to become significant mid-sized and large employers.

At the other end of the spectrum, the Atlantic region relies more heavily than do other provinces on the largest organizations for employment growth. They created 13% of the new jobs in the Atlantic region but only 9% in Canada as a whole.

All the real action is in the micro businesses, which increased employment by 159% in the Atlantic provinces in the decade. That is equivalent to an average annual growth rate of

10%. While that is impressive, it does not match the growth rate for these firms nationally, where they increased employment by 199%, or an average of slightly more than 11½%.

Employment growth rates were significantly slower in Atlantic Canada than in Canada. Overall, employment increased 23.5% in the region during the decade, compared to 29.9% nationally. However, firms employing more than 100 people in the region did almost as well (8.1%) as big firms in Canada (8.5%), while small firms grew significantly slower, at 56% in the region, compared to 73% nationally.

The market and the funded sectors

The funded sector employed one third of the work force in Atlantic Canada in 1987, compared to less than one quarter in Canada as a whole. [This sector groups all industries that do not have to seek revenues in a free market, because they are funded by governments: government administration, education and health and welfare.] The funded sector, however, lags growth rates in the rest of the country by a wider margin than the market sector. The funded sector grew 23% in the decade in the region, compared to 36% nationally; the market sector grew 24% in the region, compared to 28% nationally.

In the market sector, small firms accounted for 96% of the new jobs created in Atlantic Canada during 1979-88. Almost half the people who work in the market sector are employed by small firms. They easily outnumber the people working in firms with more than 500 employees. These big firms, moreover, are declining. In 1978, they employed 41% of the market sector (very close to the 43% share of small business), but their workforce actually declined in the following decade, ending up in 1987 with 37% of the employees in the market sector.

The core of the job-creation process rests with micro businesses, which accounted, alone, for almost two thirds of the jobs created in the market sector during 1979-88. Canada relies less on micro firms, which accounted for 56% of job creation during the decade ending in 1988. However, all small firms (those employing fewer than 100) accounted for 99% of total new jobs nationally, compared to 96% in the region. There are two reasons for this:

- In Canada, firms with 20 to 99 employees, accounted for 20% of the market-sector workforce in 1987, having created more than 15% of the new jobs during the previous decade. In the Atlantic provinces, these firms accounted for the same proportion of employment in 1987, but were responsible for only 8% of the new jobs in the previous 10 years.
- Big firms in the market sector (those employing more than 500 people) shrank by 6.3% in Canada, compared to the region's 2.6%.

Breakout by industry

In 1987, the goods-producing sector employed 22% of the workforce, but it accounted for only 12% of the new jobs created during 1979-88. In 1978, the sector accounted for 25% of total employment. The principal sources of new jobs to replace the jobs lost in the goods-producing sector have been the funded sector and wholesale and retail trade. The fourth sector, market services, has grown, but less spectacularly.

The average employment per firm in the goods-producing sector fell to 9.9 from 12.6 over the 10 years to 1987. The major cause of this trend was the massive influx of new businesses, which employ far fewer people. In big firms, however, average employment actually rose in all sectors except market services. The likely explanation for this is that many of the "big" firms in the Atlantic region are regional divisions of major companies headquartered elsewhere in Canada. (Firm size is determined by their national employment.) In the goods-producing sector, the number of big firms declined 17% during the decade, while their employment declined 6%.

A statistical overview of the job market

The industries where small firms are most predominant are primary (where 85% of employment is in small firms), construction (81%) and personal and business services (67%). Retail and wholesale trade is the fourth important industry for small firms, which employ 55%-60% of the people who work in the industry. Trade accounted for 28% of all new jobs during the decade, although only 15% of total employment was in that sector in 1987. The other major contributor was personal and

business services, which accounted for 21½% of the new jobs, despite employing only 13% of the workforce in 1987.

The importance of small business is abundantly clear from their share of job creation in the goods-producing sector, where they accounted for 133% of the new jobs (in other words, big firms declined by an amount equivalent to 33% of all the new jobs created).

SMALL BUSINESS DYNAMICS

The Atlantic region was hit harder than Canada as a whole by the mini-recession of 1980 but it suffered much less in the devastating recession of 1982-83. As might be expected, the funded sector is least vulnerable to economic cycles. It went against the trend during the recession, when it continued to increase employment, even if at a reduced rate. And in the two years immediately after the recession, the funded sector grew faster than any other sector. The goods-producing sector, however, reacted dramatically to the changing economic environment, slashing employment by more than 5% a year during the recession and then recovering very slowly until 1988.

When growth rates are examined for big and small employers over the same periods, big employers followed an almost identical pattern in the Atlantic region and nationally. Small employers everywhere increased their employment more rapidly than their large counterparts, of course, but in the Atlantic provinces, they grow less rapidly in boom times and they cut back their employment less drastically in recessions.

The progression during the decade was impressive from the perspective of small firms. In the three years before the recession, they accounted for 48% of all new jobs. During the recession, they created jobs while big firms shed them in large numbers. Small firms then accounted for 77% of all new jobs in the following two years, and 95% in the two years after that. Then, in 1988, their share dropped to 63%.

The reason for the low share of small firms in 1988 was the aggressive hiring of big firms that year. As is now well known, this hiring binge was substantially reversed in 1989-90, when big employers shed labour as fast as they did in the 1982-83 recession.

Births, deaths and survivors

Young firms, rather than small firms, dominated the process of job creation in the 1980s. This fact carries an important corollary. Young firms are vulnerable and rarely survive very long. In fact, the average life of a firm in the Atlantic provinces is only $6\frac{3}{4}$ years.

A recent survey found that about 10% of businesses that ceased operations in Atlantic Canada in 1987 resulted from bankruptcy or receivership; 44% were voluntarily closed or suspended by the owner, usually because competition was too tight or the profit margin was too small; another 35% were sold as going concerns or folded into another business. Other reasons include retirement, finding a better opportunity, and boredom, to mention just a few of the reasons given.

In the Atlantic provinces, during the period from 1979 to 1988, new business ventures amounted to an average of 20% of the total number of existing businesses *every year*. The firms that subsequently failed clawed back the equivalent of slightly more than three quarters of the new ventures. The net result of these large numbers of startups and failures is that the total number of businesses in Atlantic Canada increased at an average annual rate of 4.5% between 1978 and 1988. About 70% of the entrepreneurs starting new businesses were in business for themselves for the first time.

In Ontario, the startup and failure rates are lower than in the Atlantic region, giving a net gain of 3.8% a year. The higher failure rate in the Atlantic provinces is almost entirely attributable to the experience in the first two years of life in new businesses. Failure rates in the Atlantic region are almost identical with those in Ontario in the third and subsequent years of a firm's life, but they are much higher in the first year (35% compared to 23% in Ontario) and the second year (20% compared to $17\frac{3}{4}\%$ in Ontario).

Startups are heavily concentrated in personal and business services, which had an average startup rate during the decade of 26%, compared to an average of 20% in all industries. Personal services are almost solely responsible for the rapid growth in business starts, with a startup rate of almost 40% and a failure rate of 28%, giving it an unusually large net gain over the decade.

The impact of all this activity on employment is, of course, immense. New business formations created 210,000 new jobs during 1979-88, significantly more than the 165,000 created by expansions of firms that existed in 1978. Of course, "deaths" took away 135,000 jobs because of the high failure rate of new firms in their first three years, leaving a net contribution of 75,000 to new jobs by births and deaths. The net contribution from expansions and contractions of firms that existed in both 1978 and 1987 was slightly higher, at 85,000.

The picture is, not surprisingly, more volatile in the market sector, where new jobs created from births accounted for 176% of the total jobs created between 1979 and 1988. Small firms formed after 1978 alone accounted for 139% of total new jobs in the market sector. Births net of deaths in the market sector contributed 60% of the new jobs, compared to 47% overall.

A demographic profile of the self-employed

In 1988, almost 165,000 people in the Atlantic provinces reported income from self-employment. This represents about 18% of the people employed in the region. If the owners of incorporated businesses (who are employees of their own firms) are included, about 21% of the work force is self-employed to some degree.

For many of them, of course, their business was something they did "on the side", while they held down a full-time job. Others were turning a hobby into something that could generate some cash for them, although they didn't depend on that cash to live. But about 90% earned more than \$25,000 a year, with almost one third of their total earnings being net income from self-employment.

About 70% of the self-employed people in the Atlantic region are aged over 35. Three-quarters are men, which is in line with the national situation. The dominant group among the self-employed are men aged 35 and over, who constitute about half the total. These men earn the highest average income of any group - about \$34,000 in 1988. The lowest was earned by females aged less than 35, whose income averaged about \$13,700 in 1988. On average, self-employed people earned net income of \$27,000, including \$8,400 from self-employment.

WHO WHY AND HOW

The new breed of entrepreneurs that is emerging in the region is older, better educated and a more ambitious group of men and women than their predecessors. Almost two-thirds own only one business; 18% have bought or started one other business and another 18% have bought or started two or more other businesses.

Personal background

The average age of the respondents at the time they went into business for themselves was 34, but the more recent ones are older. Before 1984, 60% of the new owners were less than 35, compared to 44% of the total subsequently. Startups by people aged 45 or older accounted for 10.6% of the total before 1984 and 19.5% subsequently.

In the most recent period, after 1983, by far the most important source of new entrepreneurs, accounting for almost half the total in the Atlantic provinces, were executives, professionals and people who were previously self-employed.

Two thirds started their businesses from scratch and almost a third inherited or purchased their businesses. The biggest motivator for these people was their desire to be their own boss. Other insights into the motivations of people going into business for themselves:

- The need to express themselves creatively features prominently, as does the need to achieve. A major part of the drive to succeed is the desire to build something that will last.
- Money is not a major motivator, although it is often mentioned as something that symbolizes other motivations.
- Recognition is *not* a major motivator. Almost all entrepreneurs have to battle the scepticism of practically everyone they know over their ability to achieve their goals, so they would not survive emotionally if they needed recognition.

Motivations change with time. Successful entrepreneurs who have been in business for 15 years are not motivated by the opportunity to be their own boss, because they already enjoy that. Business becomes almost a game for successful entrepreneurs and they expect to have fun with it. Winning, challenge and problem-solving feature prominently. They are

also committed to "building a lasting organization" and "improving the world in some way".

Just as motivations change with time, so do they change with age and sex. Making more money becomes more important as people grow older and a sense of accomplishment is a more significant motivator for women than for men.

Finally, entrepreneurs are generally better educated than the working population. The proportion of people who had a community college diploma or a university degree in startups during the late 1980s was 39%, almost double the 22% for the working age population as a whole. Equally, less than half the entrepreneurs stopped their education when they left high school, compared to 70% of the working age population.

Financing

Atlantic Canadians who start new businesses invest more heavily than their counterparts in the rest of the country. A national study in 1987 found that 53% of startups involved an investment of less than \$15,000, compared to only 39% in the region. Up to 1983, half the startups in the region involved an investment of \$18,000; but after that year, the halfway mark was reached at \$40,000. About 40% of startups receive no financial assistance at all. It therefore appears that the region's average investment was skewed in the second half of the 1980s by a small number of very large investments, which may be attributable to the greater relative availability of government grants and loan guarantees.

There is support for this contention when the source of funding for startups is examined. The government is a more significant player in the region, contributing to the initial investment in 10% of the startups, compared to 7% in Canada. An even more important indicator, however, is the lesser reliance on personal funds and the "love money" of friends and relatives in the region, only 12% of whom invested in startups, compared to 23% nationally. Only 76% of the entrepreneurs themselves invested their own funds in their startups, compared to 82% nationally. Lending institutions funded 54% of the startups in the region, compared to 35% nationally.

As might be expected the smallest startups (which invest less than \$15,000) use a narrower range of sources of financing

than do the larger firms. The smallest ones use an average of 1.3 sources, compared to almost 2 by the largest. Government grants are used by 16% of startups involving an investment of more than \$100,000, but only 3% of the smallest firms.

Proclivity for growth

A recent survey of startups in the region found that employment in the firms surveyed had doubled since startup to about nine people. This is not spectacular in absolute terms, but it is, of course, the secret to the success of small firms; they don't grow by large numbers individually, but there are so many of them, the sum is impressive.

It takes time to grow a business, however. Among firms started after 1983, only 8% added 11 or more employees and 40% either decreased or did not change employment levels. For firms started before 1978, 15% added 11 or more employees and only 22% did not change or decreased; almost two thirds added up to 10 employees.

In exploring the contributing factors to this growth, by far the most important ingredient is qualified personnel. The second ranked "success factor" is capital. The entrepreneurs also ranked the kinds of assistance they considered most helpful: at the top of the list was information (usually relating to marketing, the competition, technology developments and planning). It is noteworthy that the financial needs are generally lower down in the priority list, indicating the high priority placed on non-financial assistance in addition to the current range of financial programs provided by governments.

Why small firms fail

Another recent survey asked the owners of failed businesses why they failed. A quarter said they couldn't make enough money and another 13% said there was too much competition, which amounts to the same thing. In other words, about 40% (the same as the proportion of voluntary closures) didn't feel the return on their ventures was worth the effort they put into them. The other significant reason, accounting for a quarter of the failures, were management problems, specifically managing

growth and problems with personnel, each of which precipitated 13% of the failures.

When the owners of these failed businesses were asked what types of assistance they feel would have been useful, an interesting picture emerges. Almost half of them recognize that they needed training or counselling, which is slightly more than the 43% who feel some kind of financial assistance would have been most beneficial to their chances of survival.

ENTREPRENEURSHIP AND EDUCATION

The groundwork for a profound examination of the impact of the education system on the regional economy has been laid with a study called *Projet Entrepreneurship Project* (PEP). This project found that:

- More than a third of the students would like to work outside the region when they leave school and a fifth would like to work in another province within the region. That leaves only 42% who said they would like to work where they now live. Francophone students were more likely than their anglophone counterparts to want to stay in their home community when they leave school.
- Almost half the students had taken two or three courses that have content relevant to entrepreneurship. However, more than 40% of the teachers indicated they had not taught any of the courses relevant to entrepreneurship.

Students identified 11 business owners in their social circles, 2½ of them in their immediate family and 3 among neighbours and friends of the family. Only one business owner, on average, had talked to them of his or her experiences as an owner. Contacts with the world of business were rare, as were opportunities to learn about business. Activities that made them aware of entrepreneurship as a career were also rated rare. The only bright spot was that opportunities to develop entrepreneurial qualities at school were afforded "from time to time" on a scale ranging from never to very often.

Few of the students showed any intention of becoming entrepreneurs. On average, their intentions toward entrepreneurship were moderately low; about a fifth of the students were

very interested, however, expressing strong to very strong intentions of becoming entrepreneurs.

The data indicated a clear correlation between positive perspectives of a community's vitality and willingness to start a business there. Also, the more students perceive themselves as possessing competence in entrepreneurship, the stronger their intentions to become entrepreneurs.

Towards an Entrepreneurial Curriculum

The PEP team identified 15 components of entrepreneurship and then rated school courses in the region on the degree to which they emphasized these components. This rating was then expressed as a percentage of the maximum possible rating. This exercise was performed separately for elementary, junior high and senior school.

Overall, the senior schools received the lowest rating of 31%, compared to 43% in elementary and 48% in junior high. This was mostly because senior schools pay far less attention than elementary and junior high schools to values and general life skills; the younger children received an emphasis rating of 50% to 70% in these areas, compared to about a third in senior schools. By contrast, the senior schools placed more emphasis on specialized knowledge, which received a rating of 27%, compared to 11% in elementary and 24% in junior high.

Turning to the implementation of these intended curricula, teachers feel they are doing a reasonably good job teaching values and skills. The components where they feel they are performing best are personal qualities, communications, critical/creative thinking and decision-making, in all of which 70% or more felt their teaching was sufficient or very good. However, they feel they are less than adequate in teaching the components of entrepreneurship that demand knowledge, as opposed to personal qualities. The level of enthusiasm is high, however, as more than 80% expressed an interest in participating in inservice programs for enterprise education. About half the teachers in the region believe that entrepreneurship should be a compulsory course.

In terms of the teaching resources available to them, the teachers are generally not impressed.

The business community's perspective

Businesspeople are, as might be expected, highly supportive of enterprise education in the schools. They suggested they could best become involved in teaching entrepreneurship through work experience, which is the method considered the least important by teachers. Talking to students and teachers ranked third among businesspeople, whereas it ranked close to last with teachers. Finally, having businesses profiled on video or in case studies ranked fairly low with businesspeople, but quite high with teachers.

The main obstacle, cited by three quarters of the businesspeople, to participation in educational activities was time constraints, which militate against open-ended commitments. The other significant obstacle, mentioned by 11%, was the feeling that their opinions would not be valued by the students.

The post-secondary perspective

To complete the review of the environment for enterprise education in the Atlantic provinces, the PEP team surveyed 13 teacher-training institutions and six community colleges to ascertain their interest in and commitment to entrepreneurship.

The findings showed that education departments of the universities were generally not interested in the discipline, while the anglophone community colleges were both interested and active. It seems fair to conclude that the education departments in the universities will not commit themselves to major expansions of their entrepreneurship programs until entrepreneurship becomes a more high-profile part of the school curricula.

A FRAMEWORK FOR ENTREPRENEURSHIP

Businesses in Atlantic Canada are saying that they no longer consider the priorities of governments in its dealings with business to be those issues that have been emphasized in the past, namely direct financial assistance and an aggressive procurement policy that favours local business. Instead, they would like to see programs that help them with developing human resources and with promotion of trade and investment.

Newfoundland businesses have expectations of governments that are significantly higher, with 72% ranking government support as very important, compared to 55% in the other three provinces. Government procurement was ranked as very important by only 52% of businesses in Newfoundland, compared to 29% in the other three provinces.

Human resource development

Close to half the region's businesses (42%) report at least one occupation in which they had a current or expected shortage of skilled employees. Another 10% reported a second occupation in which shortages are looming. Almost all these shortages were current (73%) or expected to occur in the subsequent 12 months (12%).

There was little agreement on the best solution to the shortage of skilled workers. More than a quarter could not identify any useful steps that could be taken. For the most part, they suggested more of what already exists: more and better training programs, co-operative training between educational institutions and businesses and more education.

The road ahead for entrepreneurship

With this perspective in mind, the ultimate purpose of programs designed to assist the development of entrepreneurship can be delineated as follows:

- to increase the number of people in the region who have the motivation and competence to start a new business;
- to increase the rate of new business formation;
- to increase survival and growth rates of existing businesses;
- to enhance general economic growth through job creation, job preservation, innovation, import substitution, export development and wealth creating activity.

Elements of a new wave of entrepreneurship are already in place in Atlantic Canada. This report demonstrates the need for entrepreneurship development as a primary tool in the economic development of the region. And it shows the first signs of an emerging consensus between government and business on the priorities for this new approach to economic development.

CHAPTER 1

A TURNING POINT FOR ATLANTIC CANADA

The population of the Atlantic provinces grew more slowly than that of Canada in the 1980s, but the region managed to match the national pace in employment growth. This would be highly encouraging except that the labour force grew more quickly in the region than it did in the rest of the country, so the unemployment rate soared to record heights.

Behind this simple equation, there is a complex history of determined attempts to eradicate the persistent disparity between the economic prospects of the region and of Canada as a whole. Despite the billions of dollars spent on regional development, the unemployment rate is higher than the nation's by a record amount. There is now broad agreement that these attempts at regional development have not only fallen short of achieving their ambitious objectives, but they may, in fact, have created new difficulties that are sometimes as problematic as the problems they were attempting to solve.

One of the major reasons for this predicament is that the regional development policies implemented in the past two decades did not always take sufficient account of the attitudes that have developed in this region, nor did they always correctly anticipate human responses to externally imposed initiatives. The good intentions behind regional assistance appear to have created a psychology of dependency instead of encouraging a spirit of initiative. The challenge now is to cultivate that spirit of initiative. In a region where the universities enjoy the highest enrolment of full-time undergraduate students in Canada, the work force labours with the poorest educational achievements in the country. The region's best and brightest have been going away to other regions and other countries for too long, making it that much more difficult for those who stay to lift the region out of its slide beneath the Canadian average.

In the second half of the 1980s, the federal and provincial governments in the region started developing a new approach to regional development. The philosophical core of this approach is a commitment to nurturing the entrepreneurial

spirit of the people in the region. The emphasis in its prescriptions is on advice, training and education. There is still a significant role for direct financial contributions to economic development, of course, but the priority is now shifting to the development of people, the most important natural resource in a region that has for so long focused on fish, forests and minerals.

In this chapter, we will examine the entrepreneurial wave that is rolling over Atlantic Canada as it is elsewhere in the world. Then we will review the demographic and economic backdrop to this revolution in economic development, delineating the problems that have bedeviled the region in the past and outlining the challenges that lie ahead. Later chapters will describe how small businesses and entrepreneurs are already creating new opportunities and most of the new jobs; subsequent chapters will look at the profile of entrepreneurs in the region and at the educational system that forges the attitudes of the region's inhabitants.

The Entrepreneurial Wave

Entrepreneurship has come to be seen, in the last decade, as one of the most promising routes to greater employment and long-term competitiveness. The last decade has witnessed the beginnings of an appreciation for entrepreneurs and small businesses, if only because it is indisputable that they have accounted for most of the new jobs created (see next chapter). [It should be noted here that entrepreneurs and small businesses are not the same thing; entrepreneurship implies a commitment to growth that does not exist in many small firms, which are quite happy to remain small. Yet the resourcefulness and risk-taking associated with the word mean that it is rarely found in large organizations, no matter how committed they are to growth.]

Despite the manifest achievements of entrepreneurial small firms in creating most of the new jobs in the past decade, however, there is still some uncertainty over the quality and durability of these jobs. There are some who argue that small businesses tend to create low-paying, low-tech jobs with few spin-offs in related employment. Others argue that the high failure

rate of small firms will ultimately diminish or even reverse the process of small-firm job creation that has been so successful during the 1980s. Still others argue that the solution is to make large organizations more entrepreneurial so that they can reclaim the pre-eminence in job creation that they enjoyed for a good part of this century.

Many of these arguments miss the point of entrepreneurship, which is more a way of looking at the world than a business technique. Many of the so-called "bad jobs"¹ are created in small firms because they are better equipped to manage service businesses with low profit margins; that doesn't mean small firms create bad jobs, only that they are responding to market demands that big firms cannot meet. There are also many small firms that are creating "good jobs" in manufacturing and high technology firms; these firms have been slower to make their mark, however, because they have had to acquire a significantly greater level of sophistication in the management of their enterprises in order to succeed.

That sophistication is coming, although there will always be important differences between the potential of small and big firms. The strengths of entrepreneurial firms are their flexibility, their resourcefulness, their efficient use of limited resources and their sensitivity to the market. Their weaknesses are that they are stretched too thin and often do not possess the depth of management or knowledge to compete on an even footing with large, multinational firms. In other words, small firms function best when big firms find it difficult to compete with them. These situations are becoming more common now, but it is not helpful to project big and small firms as mutually exclusive alternatives; they each have a vital role to play in developing the economy and supporting each other. The trend toward downsizing in big firms is really an attempt to focus on what big firms do best, leaving peripheral or supporting activities, and sometimes even innovation, to smaller, independent firms. Smaller firms are responding to the opportunities enthusiastically; as global markets intensify international competition, they

¹Source: Ibid. *Good Jobs, Bad Jobs: Employment in the Service Economy*, prepared by the Economic Council of Canada

are grabbing the opportunities presented and are making enormous strides.

This doesn't mean that big and small firms operate in environments that exclude each other, however. There is a growing demand for entrepreneurial management and leadership in big as well as small firms, and there's room for both to take up the challenge. Small firms will never run electrical utilities but they may run small distribution networks, metering services, energy-conservation programs or develop new sources of energy. Their status as "junior" players is history. The power of the personal computer, a quantum leap in government assistance, and a huge inflow of talented new men and women who want to become entrepreneurs have all played their part in developing the management competence and access to relevant knowledge in entrepreneurial small firms. As the inherent weaknesses in small firms are minimized by the array of assistance and support services that has grown in leaps and bounds in the last decade, entrepreneurs will progressively take a greater role in the creation of "good jobs". It is a question of the sequence of evolution, not alternatives.

It is important to appreciate that the small-business revolution in most of the developed economies during the 1980s was the beginning of a process of education. The successful economies of the 1990s and the first decade of the next century will have a dynamic cohort of entrepreneurs who will possess business skills matching those of many large corporations today. It is perhaps understandable that people cannot imagine such a state of affairs, given the high failure rate in small firms today, but this is a reflection of two trends: many neophyte entrepreneurs are cutting their teeth as they learn on the job; and the rapid pace of change in markets everywhere is creating a greater flow of innovative products and services, many of which fail. Any innovative product inevitably contains the seeds of failures and abandoned ventures in the process of refining both the products and the techniques of new-venture development in both big and small companies. Many of these failures give birth to better entrepreneurs or to subsequent, more successful versions of the same idea.

Entrepreneurs cannot do it alone. They need a hospitable and supportive environment, along with the necessary infrastructure, if they are to flourish. This extends to the attitudes

toward them of governments, the educational system and large private-sector businesses. Without a co-operative approach that recognizes the immense value of what small and entrepreneurial companies have to offer, without the vision to see what entrepreneurial small firms *can* become, the inherent weaknesses that so often make young firms falter or fail will effectively block the development of a dynamic small-business sector.

There is still much to do, however, to help entrepreneurs sharpen their business skills, as will become apparent later this chapter, in the section *The non-competitive trap*. The study referred to in that section² concluded that "small-firm managements are not only limited in breadth but also in depth....Most small-firm managers do not perceive that their companies are lacking in quality of skills partly because they themselves are part of the low skill syndrome." The areas where these weaknesses are most prevalent are production skills and marketing.

It is important not to misunderstand these alarms, however. Entrepreneurs have not traditionally been the type of people who study to acquire all the skills they need before they embark on a new venture. They are, by circumstance or by necessity, people with a bias for action, who jump on opportunities and struggle to acquire the necessary skills as they go along. There is a role for governments to play in initiating a supportive environment in which entrepreneurs can be helped to recognize their own needs as early as possible. This is a process quite unlike a subsidy to build a plant. It is an investment in people, just as education is. It is an investment that has the potential to deliver huge dividends in a dynamic economy and new jobs.

As the following sections will show, the need for a fresh approach to regional development has never been stronger. A combination of demographics, adverse developments in the labour force, declining productivity and an uncompetitive culture are depressing the region's economic performance, which is once again slipping further behind that of the country as a whole after a brief period of promising progress.

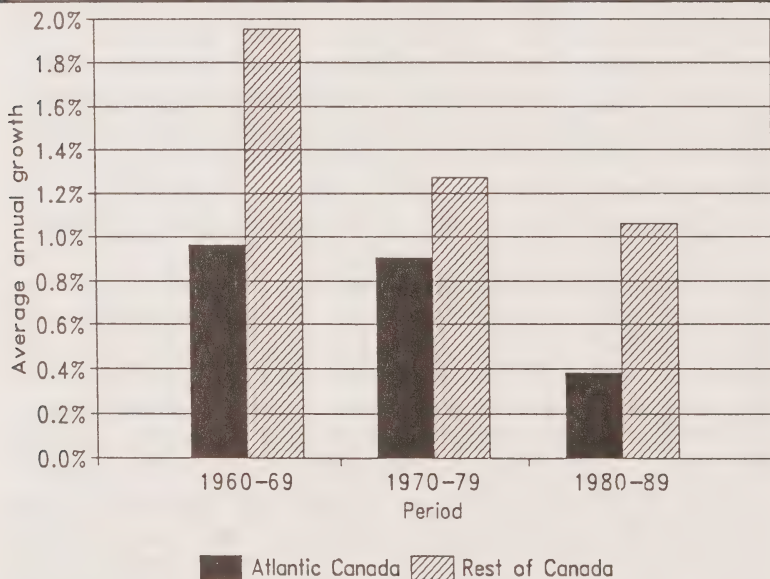
²*Small Manufacturing Competitiveness and Performance: An analysis of matched pairs in Nova Scotia and New England*

Demographics

Population growth rates have eased steadily downward in Canada since the 1960s, but the decline has been even more rapid in the Atlantic provinces. The population of Atlantic Canada grew at an average of less than 0.4% a year in the 1980s, compared to almost 1% a year in the 1960s, as Chart 1.1 shows. Over the 30 years, Atlantic Canada's growth was just over half Canada's average of 1.4% a year, resulting in a shrinking of its share of the country's population to 8.8% from 10.4%.

Chart 1.1³
Population growth is slower in Atlantic Canada

Average annual growth in total population, 1960-69, 1970-79 and 1980-89. Atlantic Canada and the rest of Canada.



³ Source: Statistics Canada, CANSIM data base

The lag in the region's growth rate is entirely attributable to migration. Natural population growth was almost identical with that of Canada's over the 30 years, but Canada gained an average of 0.44% a year from migration, while the region lost an average of 0.35% a year⁴.

A major reason for this migration was the lack of available jobs in the region, or at least the perceived lack of opportunity, with the result that many of those who left were of working age. This phenomenon shows no sign of abating; in a study conducted for *Projet Entrepreneurship Project* (PEP)⁵, more than a third of Grade 12 students in the region said they expected to seek work outside the region when they completed their schooling. This has skewed the region's age structure, which is now slightly more heavily weighted with retired people and significantly more heavily weighted with young people less than 25 years old; almost 40% are younger than 25, compared to 36% nationally.

A second effect of the paucity of jobs has been that cities have exerted a much weaker pull for people living in rural areas. As a result, in 1986, almost half of Atlantic Canadians lived in rural areas (defined as areas having fewer than 1,000 people living in them), compared to 21% nationally. The rural/urban split in Canada hasn't been at 50% since 1941.

The labour force

Compared to the rest of the country, a smaller proportion of Atlantic Canadians of working age have entered the labour market. The reasons for this are varied; they include the lack of available jobs and the greater proportion of people living in rural areas, where two-income families are less common. The participation rate has been increasing nonetheless, although always with a lag of several years behind the rest of the

⁴Source: *A Profile of the Labour Force in Atlantic Canada*, prepared by the Canadian Labour Market and Productivity Centre for the Atlantic Canada Opportunities Agency. October, 1990.

⁵ Source: *New Directions in Enterprise Education: A Research Venture with a Vision for Atlantic Canada*. For more detail, see Chapter 5.

country. In the 1980s, however, this changed. The participation rate in Atlantic Canada increased twice as fast as it did in the rest of the country, as Table 1.1 shows.

The driving force behind this trend was women, who were responsible for virtually all the increase. Their participation rate increased at an average annual rate of 2.6% during 1975-81 and 2.1% during 1981-89. This compares with rates of 2.6% and 1.4% in the rest of Canada.

Table 1.1 ⁶
The road to high unemployment

Average annual rates of change in: the working age population, the participation rate of working age people in the labour force, the labour force and employment. 1966-79 and 1980-89. Also, the unemployment rate at the beginning and end of each period. Atlantic Canada and all of Canada.

	1966-81		1981-89	
	Atlantic Canada	All Canada	Atlantic Canada	All Canada
Working age population	2.0%	2.5%	1.0%	1.2%
Participation rate†	0.7%	0.9%	0.8%	0.4%
Labour force	2.8%	3.4%	1.8%	1.6%
Employment	2.3%	3.0%	1.6%	1.6%
Initial unemployment rate	5.3%	3.4%	11.5%	7.5%
Final unemployment rate	11.5%	7.5%	12.4%	7.5%

†Notes: The participation rate is the percentage of the working age population that are looking for or have a job.

The effect of this surge in the participation rate was to make the region's labour force grow more quickly than Canada's even though its population of working-age people was growing more slowly. In the previous 15 years, from 1966 to 1981, the region's labour force grew much more slowly than Canada's, averaging 2.8%, compared to 3.4% nationally.

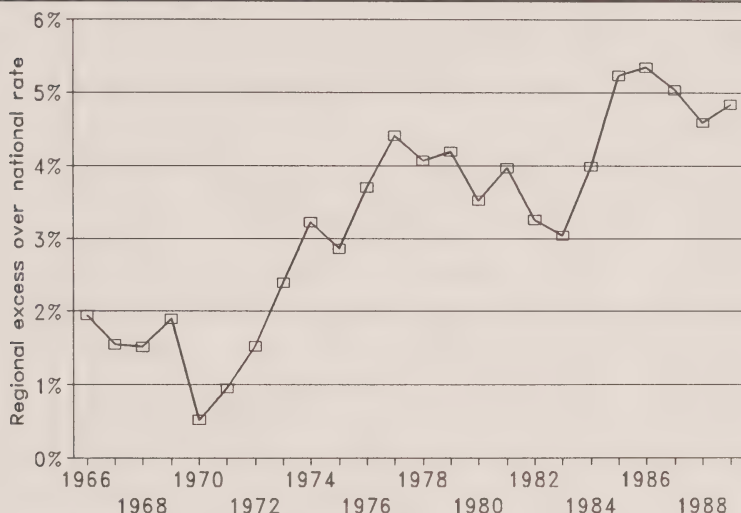
With this rapidly growing labour force, the region performed creditably in creating new jobs, expanding employment at the same rate as Canada during the 1980s. This represented a significant improvement over the previous 15 years, when employment growth was considerably slower in the region.

⁶Source: Historical Labour Force Statistics, Statistics Canada, 1989

The net effect of these trends in employment and the labour force was that the gap between the jobless rates in Atlantic Canada and the country as a whole, rose from 1.9 percentage points in 1966 to 4.0 points in 1981, then on to 4.9 points in 1989, as Chart 1.2 shows.

Chart 1.2⁷
Atlantic Canada's extra burden

The difference between the unemployment rates in Atlantic Canada and Canada, 1966-89



The region tends to improve its relative position during recessions, which do not hit employment as hard in the Atlantic region as they do in Canada as a whole; by the same token, the subsequent recoveries are much slower in the region, leading to a sharp jump in the disparity between national and regional unemployment rates. After the 1981-82 recession, the worst disparity was in 1985 and 1986, when the country was booming but the region's recovery was still gaining momentum; in those

⁷Source: Historical Labour Force Statistics

years, regional unemployment was 15.7% and 14.9% respectively, or about 5.3 points above Canada's rate.

With these levels of unemployment it would be reasonable to assume a significant proportion of more or less permanently unemployed people, but this is not the case. For most of the period since the 1981-82 recession, the average duration of unemployment for individuals looking for work has in fact been less in the region than in Canada as a whole. The problem in the region is that a much greater proportion of the labour force is unemployed for at least part of the year. In 1989, 38% of the labour force experienced a bout of unemployment in Atlantic Canada, compared to 22% in Canada. Since 1981 the incidence of unemployment has not gone below 35% of the labour force in the region, while it has declined steadily from 32% to 22% in Canada.

One significant reason for this higher incidence of unemployment is the seasonality of employment. In 1989, the seasonal component of employment at its peak was 7% in Canada, compared to 17% in Atlantic Canada⁸. This is a considerable improvement for Canada, where the seasonal component has fallen from 10% in the 1960s; in the region, however, the situation is largely unchanged, having fluctuated consistently around 18%.

The main sources of seasonal employment are the fisheries, tourism, agriculture and summer jobs for students; and the whole process is enlarged by the off-season subsidization of seasonal workers through the unemployment insurance program, which makes it easier for employers to attract seasonal workers.

Another regional phenomenon is the incidence of part-time work, which has risen across the country but more rapidly in Atlantic Canada. Part-time work accounted for 18% of the jobs created in the decade, or double the national average. Nationally, it reached 15% of total employment in 1989, up from 9% or 10% in 1975. The problem is that much of this part-time work is involuntary, particularly in the Atlantic provinces, where 37% of the part-timers would prefer full-time jobs, compared to 21% in the rest of the country. One fifth of the jobs created

⁸Source: *A Profile of the Labour Force in Canada*

in the decade were involuntary part-time jobs, held in unusual numbers by women aged over 25.

The net effect of these trends is a severe underutilization of the work force. This leads, in turn, to an even more serious phenomenon: many workers become discouraged and withdraw from the labour force altogether because they believe no jobs are available. This tendency is most common in the Atlantic provinces, which, with only an 8% share of the total labour force, accounts for more than a third of all the discouraged workers in the country. One survey estimates that 4.5% of the region's labour force⁹ is excluded from the official totals because they have become so discouraged they no longer describe themselves as seeking employment. If this lost potential of the labour force is added to the working hours lost by involuntary part-time or seasonal workers, the total underutilization of the regional labour force would be 6.7% over and above the official unemployment rate of 12.4% in 1989. At the national level, the discouraged-worker gap is only two percentage points.

Even this may understate the problem. If it is assumed the relatively low participation rate reflects the rural conservatism of the region and the lack of available jobs, to the extent that the second of these trends is true, there is a "hidden" labour force which does not emerge even in employment surveys. If the Atlantic region's labour force were assumed to be based on the same participation rate as Ontario's, for example, the "real" unemployment rate based on this hidden labour force and the discouraged workers would be 25% in the region¹⁰. This level of underutilization is demoralizing enough; for governments, it holds the additional danger that the official unemployment rate does not respond to employment increases quickly. Whenever employment grows, people who are not even in the labour force come out of the woodwork, causing the labour force to grow rapidly and leaving the unemployment rate floating high. After the last recession, employment grew at the same pace in Atlantic Canada and the rest of Canada, but the unemployment

⁹Source: *A Profile of the Labour Force in Atlantic Canada*, based on the *Survey of Job Opportunities*, prepared by Statistics Canada.

¹⁰Source: Ibid.

rate fell by 50% in Ontario, compared to only 21% in the region.

In the recent past, the principal means of combatting the effects of such a severe underutilization of the labour force has been transfer payments through unemployment insurance. In an average month in 1989, 11.4%¹¹ of the working age population in the region received unemployment insurance benefits of some kind; this compares with 4.5% for the country as a whole. In Newfoundland, 18% of the labour force received some UI benefits in a typical month, while workers in the other provinces in the region relied somewhat less heavily on the program - 14% in Prince Edward Island, 11% in New Brunswick and 8% in Nova Scotia.

UI payments bear a strange relationship with unemployment. In an average month in 1989, there were four UI beneficiaries for every three people unemployed. This is not as illogical as it seems at first sight. Some beneficiaries are not required to look for a job because the UI Commission knows there are none available, so they are counted as out of the labour force in employment surveys even though they are receiving benefits; also, people on unemployment are allowed to earn up to 25% of their weekly benefit without penalty, so they would be counted as employed.

There is no dispute as to the importance in human terms of these transfer payments to the region. In some areas, particularly in Newfoundland, they are indispensable. There is, however, a growing debate over the long-term effects of the infrastructure of federal transfer payments. The evidence is strong that the regional labour force has developed a psychology of dependency and there is growing consensus that the region should be encouraged to develop independence from federal transfers.

This is the context for the switch to entrepreneurship development in the region. This offers solutions for the discouraged workers as well as local solutions to regional problems.

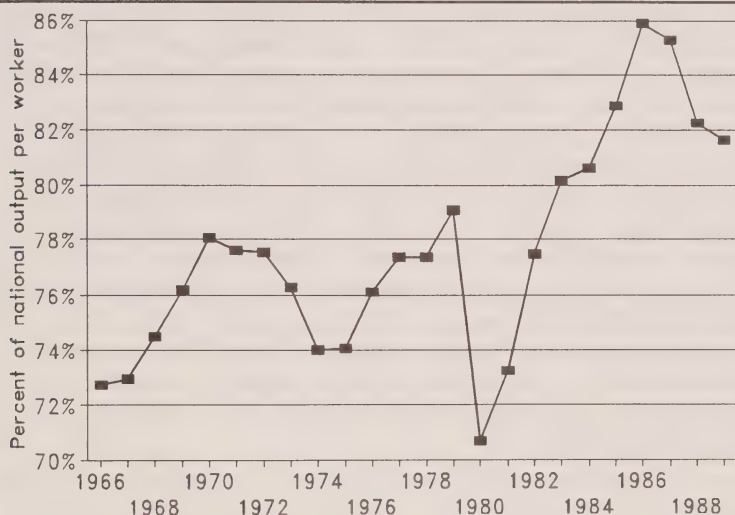
¹¹Source: *A profile of the Labour Force in Canada*, based on Unemployment Insurance statistics and Historical Labour Force statistics, prepared by Statistics Canada and retrieved from CANSIM

Economic Development

Productivity in the Atlantic region is significantly below that of the country as a whole. The federal government recognized the importance of closing this gap in the 1960s and embarked on a series of regional development programs. The efforts and the financial aid expended in this effort have been considerable and, although the results have not met expectations, there has been some significant progress, as Chart 1.3 shows.

Chart 1.3 ¹²
Atlantic output is catching up

Gross Domestic Product divided by total employment in the Atlantic provinces, expressed as a percentage of the comparable national statistic. 1966-89



In the past few decades, the Atlantic region has narrowed the productivity gap with the rest of the country. In the mid-1960s, output per worker in the region was less than 73% of

¹²Source: Provincial Economic Accounts and Historical Labour Force Statistics, prepared by Statistics Canada and retrieved from CANSIM

the nation's; by 1986, it had risen to 86%, although it declined to less than 82% in the following three years. The region generally grows much less spectacularly than the rest of the country in the frantic booms that so often precede a recession, but it loses less ground during recessions, which improves its relative productivity, as Chart 1.3 shows. On average, output per worker grew 8.6% a year during 1966-89 in the region, compared to 8.0% in the rest of the country.

A major impetus behind this improvement has been the federal government. In 1988, federal expenditures in the Atlantic provinces represented 41% of the region's Gross Domestic Product, double the share of the rest of country and significantly higher than the federal share in the region of 34% in 1961¹³. In 1988, federal spending in the region was 131% of the national average, while federal receipts from taxation were 69% of the national average. High as this net inflow of funds was, it had in fact decreased significantly since 1981, when federal spending in the region was running at 154% of the national average and accounted for 51% of the region's GDP.

Inevitably, this powerful input to the regional economy has benefited incomes more than production, if only because so much of it is transfers to individuals. Per capita income in the Atlantic provinces grew to 78% of the national income per capita in 1988 from 69% in 1961. However, transfer payments by the federal government accounted for more than a fifth¹⁴ of this increase of nine percentage points. Unemployment insurance payments alone accounted for 20% of total wages and benefits in 1988. During the same period the *earned* income per capita increased to only 70% of the national average from 65%.

It appears, therefore, that federal policies have helped bolster income levels in the region, but they have not solved the underlying problems of productivity, job creation and unemployment. Only a third of Atlantic Canadian businesses have received direct financial assistance from one or more levels of government and these are heavily concentrated in the resource and manufacturing industries, where three quarters and two

¹³Source: Ibid.

¹⁴Source: *ACOA: Transition to Maturity*, by Donald Savoie, 1991

thirds of the firms respectively say they have received direct financial assistance¹⁵. Direct financial assistance has also generally been skewed to bigger firms in the past. The federal government will continue to play a central role in the economic development of the region, but that role is changing as the government re-orientes its spending toward non-financial development support.

It is important to understand the root causes of the economic state of the region. There are a number of possible causes of the productivity gap, including under-investment in the region's enterprises and its industrial structure. The level of investment can be measured by dividing the capital shown on the balance sheets of businesses in the region by the number of workers, to obtain the capital stock per worker. It turns out that investment is a strength rather than a weakness in the region, because the region's capital stock per worker in 1988 was 5.5% greater than the rest of the country's¹⁶. In manufacturing, capital stock per worker in the region is 30% above the comparable figure for the country.

The industrial structure is more complex. Regional employment is relatively light in goods-producing industries and what employment there is is heavily weighted toward volatile primary industries and lower-paying manufacturing jobs. The primary sector employs only 2% of the region's work force but it is heavily weighted in the volatile fishing industry, which employs 38% of the workers in primary industries (incidentally accounting for two-thirds of all Canadian employment in the fishing industry). The manufacturing sector employs 14% of the work force, but it, too, is dominated by low-wage industries; the food manufacturing industry accounted for 35% of all manufacturing jobs in the region in 1989, or triple the comparable figure for Canada (12%). Fish plants alone employed one quarter of all people in the region who worked in manufacturing.

¹⁵Source: *Survey of Business Needs in Atlantic Canada*, prepared by Omnifacts Research for Atlantic Provinces Chamber of Commerce, May 1991.

¹⁶Source: *A profile of the Labour Force in Atlantic Canada*, October, 1990

Regional employment is also over-represented, as compared with the country as a whole, in traditional¹⁷ services and government and para-government agencies, the two sectors with the lowest potential for spin-offs in ancillary employment. Yet these two sectors were the source of a greater proportion of new jobs in the region during the 1980s than in Canada as a whole (see also Chapter 2). By contrast, employment in dynamic services, which offer the greatest potential in high-paying, export-oriented jobs, is a lower proportion of the total in the region than in the country; this sector also accounted for a much smaller share of the new jobs in the region than in Canada.

The industrial structure of the regional economy, however, is not the cause of the productivity gap, as productivity is lower than the national average in seven out of the 12 major industry groupings. A shift in the industrial mix of employment would change the productivity gap, but it would not solve it.

The most likely candidates for principal causes of the productivity gap and inadequate job creation are technological innovation and the productivity of the workers in the region.

The region's commitment to research and development lags far behind the rest of the country. As a percentage of Gross Domestic Product, R&D expenditures in the Atlantic provinces are 35% below Canadian spending, 78% below Ontario and 30% below Quebec¹⁸. The federal government accounts for 57% of R&D spending in the region, compared to 31% nationally and 29% in Ontario. The private sector accounts for only 13% of R&D spending in the region, compared with 42% nationally and 44% in Ontario.

Service industries in Atlantic Canada lag other regions by 10% to 15% in their use of computer-based applications. In

¹⁷In its report, *Good Jobs, Bad Jobs: Employment in the Service Economy*, the Economic Council of Canada devised the distinction between two types of services in the private sector: traditional services (retail trade and personal services) generally have fewer high-paying jobs and offer fewer spin-offs; dynamic services (transportation and communications, wholesale trade, finance, insurance and real estate and services to business) have a higher proportion of higher-paid jobs and offer greater potential for economic development.

¹⁸Source: *Atlantic Canada Opportunities Agency: Transition to Maturity*, prepared by Donald Savoie, 1990

manufacturing, firms in the food and beverage, wood, primary and fabricated metal, machinery, transportation equipment and petroleum and chemical industries are all lagging the national average in the use of advanced manufacturing technologies¹⁹. During 1980-85, spending on computer equipment as a percentage of annual sales was less than half the national average²⁰. A recent study²¹ found that only 62% of the region's small businesses have used computers, compared to 76% nationally. Another recent study²² was consistent: it found that 67% of businesses of all sizes use computers for administrative functions and 51% use them for production or processing functions of some sort.

An equally daunting challenge faces the region in addressing the productivity of workers in the region. This should be viewed in the context of the emergence of the two deleterious issues mentioned earlier: underutilization of the labour force and the net loss of people from migratory patterns. Had these two issues not surfaced, the productivity gains may have been even larger; and if they are allowed to continue untreated, they will eventually undermine the productivity gains made so far. The path to solutions of these issues are the creation of a climate of opportunity through entrepreneurship and a much enhanced level of training for workers in the region.

The non-competitive trap

When an economy fails to invest adequately in its human resources, the long-term consequences are extremely serious. The extent of this danger is illuminated by a recent

¹⁹Source: Ibid.

²⁰Source: Economic Council of Canada

²¹Source: Unpublished material developed by the Atlantic Entrepreneurial Institute, 1991

²²Source: Ibid. *Survey of Business Needs in Atlantic Canada*

study²³ on the factors constraining the growth of small manufacturing firms in Nova Scotia compared to closely matched firms in New England. The results are applicable throughout the Atlantic provinces. Among the major conclusions of the study were the following:

- Nova Scotian firms penetrate markets outside their province to a lesser extent (47% of sales) than their counterparts in New England penetrate markets outside their state (67%).
- Transportation costs are *not* a significant factor inhibiting penetration of non-regional markets in Atlantic Canada. Modern communications have diminished the disadvantages of peripheral locations.
- Firms in both Nova Scotia and New England depend too heavily on their single major customer, which accounts for 20% to 40% of their total sales. This reflects the low priority placed on marketing and selling.
- Nova Scotian firms have a higher proportion than their New England counterparts of machinery less than 5 years old, but they have a lower proportion of technologically advanced machinery. In precision engineering firms in New England, there is one advanced CNC machine (numerically controlled) for every eight people. In Nova Scotia the comparable ratio is one for every 21 people - and if one of the firms in the sample is left out, one CNC machine for every 70 people. The likely explanation of this is that, in Nova Scotia, grants to buy machinery are more generous and, in New England, customers are more likely to demand CNC machines before they will place an order.
- New England firms compete with a far larger number of firms than do their counterparts in Nova Scotia. In precision engineering, for example, there are 13 competitors in the Nova Scotia market and 200 in New England. Because of the small size and remoteness of the Atlantic market, many New England firms do not bother to develop this market for their products. Also, the Nova Scotian firms are

²³*Small Manufacturing Competitiveness and Performance: An analysis of matched pairs in Nova Scotia and New England*, prepared by P.N. O'Farrell in association with Gardner Pinfold Consulting Economists for the Nova Scotia Department of Industry, Trade and Technology and the Atlantic Canada Opportunities Agency. 1990

less adventurous because they don't need to be - a significant proportion of them were partially dependent on government spending, either directly through public purchasing or indirectly through sub-contracting to larger firms, which in turn rely on government spending for their survival and profitability.

- Prices of products made in New England were less expensive than comparable Nova Scotian products by 18% in precision engineering and 33% in clothing and knitwear (assuming an exchange rate of C\$1=US\$0.86). British prices were lower for 70% of the products in precision engineering and 95% in clothing and knitwear. British prices were also cheaper than 50% of the precision engineering products made in New England.
- Wage rates are significantly higher in New England in every industry except precision engineering, as Table 1.2 shows.

Table 1.2²⁴
Wages are higher in Nova Scotia

Mean wage rates per hour in 1989 for specified occupations in matched groups of companies located in Nova Scotia and New England (Maine and New Hampshire).

Trade	New England	Nova Scotia	
	US\$	US\$†	C\$
Precision engineering - skilled	10.20	12.09	14.06
- apprentices	7.00	7.31	8.50
Food - semi-skilled	7.95	7.59	8.83
Fish - cutters	10.34	7.64	8.88
- trimmers	6.50	5.31	6.17
Clothing and knitwear - cutters	7.00	7.16	8.33
- machinists	7.00	5.99	6.96

†Notes: The Canadian dollar is assumed to be worth US\$86¢.

As might be expected, non-wage costs are significantly higher in the U.S. at 30% of wages, compared to 15% in Nova Scotia. When these are added to wage costs, labour costs in New England are 20% higher in food processing,

²⁴Source: *Small Manufacturing Competitiveness and Performance: An analysis of matched pairs in Nova Scotia and New England*

40% higher in fish processing, and 30% higher in clothing and knitwear and precision engineering.

Clearly, Canadian prices are uncompetitive not because of labour costs but because of poor productivity and a less competitive local market.

- Financing for fixed assets is not generally a problem for Nova Scotian firms. Many complain of a shortage of working capital: this is worst in the clothing and knitwear firms, 60% of which complain of a shortage of working capital, largely because they are plagued by customers who take an average of 60 days to pay their bills, compared with 20 days in New England.
- In an extensive testing of quality, O'Farrell found that only 60% of the products of the Nova Scotian firms in the precision engineering and clothing and knitwear industries were considered of competitive quality by New England proprietors. When British precision engineers were asked to evaluate products from both Nova Scotia and New England, they judged 80% of the U.S. products and 42% of the Nova Scotian products to be of acceptable quality. Similarly British manufacturers and department store managers rated 46% of Canadian clothing and knitwear as unacceptably poor quality.

The commitment to training and skill development was suspect in both Nova Scotia and New England, although the problem is more acute in Nova Scotia. The highest quality machine shop proprietor in Nova Scotia complained that even trained people often cannot set up machines or grind their own tools.

Some firms in clothing and knitwear produce high quality garments, but they are overpriced because of management weaknesses; others have fundamental problems with quality, due to failure of management to set quality standards, poor supervision, lack of skills in the cutting room, inadequate training and skills, lack of attention to detail and finish and inadequate quality inspection. Because of this, Canadian firms tend to aim at the low-price market segments.

In the fisheries, Canadian firms are less cost efficient because they do not segment their market and they do not operate year round. When New England firms cannot catch

fish themselves during the winters, they ship in supplies of fresh fish from the Pacific coast. They also seek ways of increasing their value added by penetrating specialized niches that require further processing. Nova Scotian companies see themselves as selling a commodity, while their New England counterparts are selling food preparation. Fish are less well-handled in Nova Scotia: as one Maine proprietor said, "I can buy in Canada at half the price and half the quality."

- Nova Scotian firms made as much profit as firms in New England, except in the fish processing industry. This indicates that the low priority given to training, quality and productivity is rational in the short term (why increase costs if profit projections are being met?), but this practice holds very severe risks for the long term as global competition increases and works its way into every corner of the domestic markets of all developed countries.

O'Farrell concludes by commenting: "Public policy appears inadvertently to have reinforced market failure to some extent by cushioning profits via grants, subsidies and preferential purchasing, thereby reducing the incentive to change. Therefore, the diagnosis leads back to the need for policy makers to shift their emphasis away from subsidies for fixed assets investment towards human capital assistance."

The small size of the sample on which this study is based means that the results cannot be generalized with complete confidence to manufacturing throughout the region. However, the patterns revealed by the study do identify needs which can be addressed to improve the situation.

Education and Training

The long-term success of any economy depends ultimately on the quality of its people. Their creativity and productivity contribute far more to long-term prosperity than money or natural resources. The biggest danger of chronic under-employment and lower productivity is not that an economy loses the benefit of a bigger Gross Domestic Product, but that it risks undermining the self-confidence and commitment of its people.

The Atlantic provinces have all the necessary talent here, but there is much to be done in raising the opportunities to which they are exposed - opportunities which can stretch them and allow them to fulfil their and their region's potential.

Perhaps the biggest challenge to the region is to refine the education system. About one fourth of Canada's independent degree-granting institutions are located in the region and 19% of the population aged 18-24 is enrolled for full-time undergraduate studies at these universities²⁵. While this is above the national average of 16%, full-time enrolment at the post-graduate level is 0.39% of the total population aged 20 to 44, which is significantly below the 0.56% enrolled nationally.

The region has 3% of the population aged 18 to 24 enrolled full-time in community colleges, compared to 11% nationally. This is balanced by the vocational schools (which often provide comparable education); full-time enrolment in these schools was 16% of the population aged 15 and over in the region, compared to 12% nationally. In the vocational schools, enrolment in the region represented 12% of the nationwide enrolments; for Special Training Programs, the regional share was 55%.

If the demand for higher education is cause for some concern, educational attainments at the other end of the spectrum are alarming. Almost half (48%) of Atlantic Canadians have difficulty meeting every-day reading demands or in performing numerical operations for every-day purposes²⁶. In Newfoundland, more than 60% have literacy difficulties and 55% have numeracy difficulties. In Canada, the corresponding figure is 38% for both numeracy and literacy. This low level of basic competence inevitably limits the capacity of the labour force to adjust to change.

More than a fifth of the region's working-age population had not progressed beyond eight years of schooling in 1989, compared to 17% in Canada. This represents a significant improvement since 1975, when 33% of the region's working age

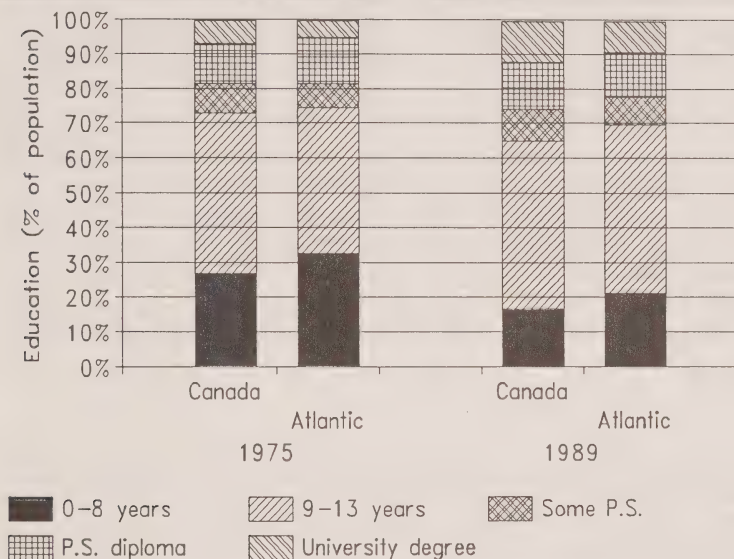
²⁵Source: Ibid. *A Profile of the Labour Force in Atlantic Canada*, based on Statistics Canada publications

²⁶Ibid. *A Profile of the Labour Force in Atlantic Canada*, based on *Survey of Literacy Skills Used in Daily Activities*, Statistics Canada, 1989

population had not progressed beyond eight years of schooling. Almost half the working age population in both the region and Canada have completed high school, and 22% have obtained a diploma or a university degree in the region, compared to 25% in Canada, as Chart 1.4 shows.

Chart 1.4²⁷
Educational profiles

Educational attainment of the working age population, expressed as a percentage of the total, Atlantic Canada and Canada, 1975 and 1989



Note: P.S. stands for post-secondary.

An important contributor to this state of affairs is migration. The region is losing many of its best and brightest. The study conducted for PEP²⁸ found that only 42% of Grade 12 students in the region expected to work in the same place

²⁷Source: *A Profile of the Labour Force in Atlantic Canada*

²⁸Source: Ibid. *New Directions in Enterprise Education*

where they grew up; another fifth said they would like to stay in the region, but not in their home town; and more than a third expected to leave the region. Atlantic Canadians are more than twice as likely to change provinces as residents of other provinces. More importantly, in 1986, those with some post-secondary education were seven times as likely to change provinces as were those with fewer than 9 years of schooling, and twice as likely to move as those who graduated from high school²⁹. In other words, the below-average level of educational attainment in the region is a reflection of the failure to provide adequately challenging employment or opportunities to these people. For example, in 1989, 25.5% of the labour force in the region were in managerial and professional jobs, compared to 28.1% in Canada.

In training programs, which take over where formal education leaves off, the region is more active than the rest of the country. One sixth of the population aged over 15 in the Atlantic provinces enrolled in trade and vocational programs in 1987-88. Full-time enrolment in these programs amounted to 12% of the Canadian total, compared to the region's 8% share of the labour force and 9% share of the working-age population. The region's spending on these programs was 13% of the national total in 1986-87, having increased at almost 20% a year in the previous five years, compared to 17% nationally.

The mix of training programs in the region, however, is more heavily weighted toward those sponsored by the Canadian Employment and Immigration Commission (CEIC). The private sector in the region is generally less active: 24% of the establishments surveyed by CEIC in 1984-85 had structured training programs for their employees, compared with 25% nationally; in 1987, 3.3% of the region's population aged 16-69 took privately-sponsored job-training courses lasting longer than 25 hours, compared to 4.1% nationally. CEIC courses took up much of the slack, however, training 1.7% of the population in the region, compared to 1.2% nationally.

The Atlantic provinces receive a disproportionately large 16% of the funds spent under the Canadian Jobs Strategy, the principal training vehicle of CEIC. These funds were steered

²⁹Source: *A Profile of the Labour Force in Atlantic Canada*

toward job entry and chronically unemployed people to a greater extent in the Atlantic provinces than elsewhere in the country, as Table 1.3 shows. This reflects the primary objective of the CEIC to provide training to the economically disadvantaged to facilitate their entry into the workforce. However, programs which focus on developing skills of people already employed (Skill Shortages and Skill Investment) did not receive proportionately as much attention or funding in Atlantic Canada as they did elsewhere in 1988-89.

Table 1.3³⁰

The incidence and funding of federal training programs

The distribution, within Canada and Atlantic Canada, between the programs of the Canadian Employment and Immigration Commission, by participants and by fund allocation. 1988-89

Program†	Participants		Allocation of funds	
	Canada	Atlantic	Canada	Atlantic
Job Development	21.3%	23.9%	34.2%	37.4%
Job Entry	37.3%	40.4%	33.2%	33.6%
Skill Shortage	24.4%	12.1%	16.8%	8.3%
Skill Investment	8.8%	10.9%	5.5%	5.5%
Community Futures	2.0%	4.4%	7.9%	12.3%
UI Section 25	6.2%	8.3%	2.4%	2.9%
TOTAL	100.0%	100.0%	100.0%	100.0%

†Notes: Job Development is targeted at the long-term unemployed. Job Entry is designed to help young people enter and women return to the labour market. Skill Shortages provides financial assistance for employers to train workers in skills in short supply. Skill Investment is aimed at assisting employed workers to acquire new skills before their existing skills become obsolete. Community Futures assists communities hit by layoffs or faced with chronic unemployment. Section 25 of the Unemployment Act provides income support for training programs while unemployed.

This may represent a strategic gap in the government programs available in the region. According to O'Farrell³¹, "every industry in Nova Scotia is facing shortages of key skills with no subsidies available for firms wishing to upgrade or

³⁰Source: Canadian Employment and Immigration Commission, 1989

³¹*Small Manufacturing Competitiveness and Performance: An analysis of matched pairs in Nova Scotia and New England*

retrain their existing work forces." He points out that in apprenticeship programs, there are no nationally standardized theoretical or practical tests at the end of four years' training (the last two of which are on-the-job and receive a low priority from employers).

In addition, apprenticeship courses in the English-speaking countries focus heavily on purely functional competence. By contrast, in Germany and Japan, on-the-job training provides general as well as specialized skills. This provides their workers with broader skills that go beyond functional necessities and equip the workers to respond to changes demanded by future, as-yet-unknown uses.

Despite all these difficulties, there is no shortage of entrepreneurs in the region. And they have done yeoman service for their region: as the following two chapters will show, dynamic small firms have led the way in job creation, providing a great deal of excitement in the process.

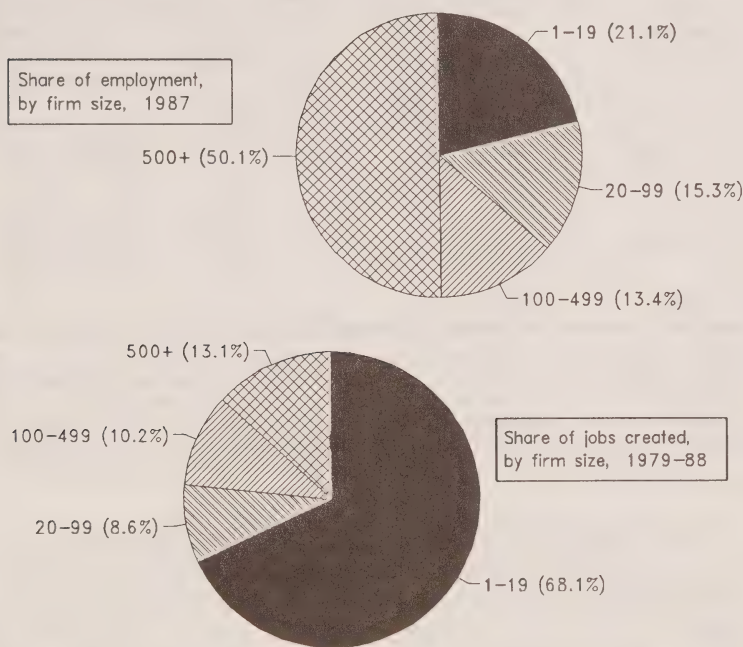
CHAPTER 2

THE POWER OF SMALL FIRMS

Small firms employ more than a third of the people in the Atlantic provinces, and they account for three-quarters of all the jobs created in the decade to 1988, as Chart 2.1 shows.

Chart 2.1 ¹
Most new jobs come from small firms

Distribution, by firm size, of employment in the Atlantic region in 1987 and of the new jobs created in the region during 1979-88.



¹Source: Unless otherwise stated, the data in chapters 2 and 3 is based on *Employment Dynamics*, which is published by the Small Business and Special Surveys division of Statistics Canada.

This impressive performance, however, does not mean that small firms are on their way to dominating the regional economy. They are increasing their share of total employment, but only slowly, as Table 2.1 shows; larger organizations still account for the major share of jobs.

Table 2.1 ²
The evolution of employment patterns in Atlantic Canada

Distribution, by firm size, of employment in 1978 and 1987, and the contribution of firms within each size group toward new jobs created in the intervening years.

Number of employees in the firms	Employment distribution 1978		New jobs created 1979-88		Employment distribution 1987†	
	(000s)	%	(000s)	%	(000s)	%
Fewer than 5	49.2	7.2	78.1	48.9	66.8	8.4
5 - 19	72.9	10.7	30.6	19.2	101.1	12.7
20 - 49	53.9	7.9	10.5	6.6	70.1	8.8
50 - 99	42.1	6.2	3.3	2.1	51.7	6.5
Small firms	218.1	32.1	122.5	76.7	289.6	36.4
100 - 499	99.8	14.7	16.3	10.2	106.9	13.4
500 or more	360.8	53.2	20.9	13.1	398.3	50.1
All firms	678.7	100.00	159.7	100.0	794.8	100.0

†Firms are classified according to the number of people they employ when they started in business, or in 1978 if they already existed then. New jobs created during the period are assigned to the firms on the basis of their size by this definition. As many growing firms are reclassified when they grow bigger, the distribution of employment by size in 1987 does not match the distribution in 1978 plus jobs created during the period.

Employment totals are available for 1988, but their distribution by firm size is not. The distribution for 1987 is the latest available.

The reason for the slow increase in small firms' share of total employment is that so many of them become mid-sized or even large firms (which are then no longer defined as small, of course), as they fill the vacuum left by the once-larger firms that have declined or failed. The 122,500 new jobs created by small firms during the 10 years to 1988 raised small-business employment to 289,600 from 218,100, a net increase of only

²Source: *Employment Dynamics*

71,500. This increased the share of small firms in total employment to 36.4% in 1987 from 32.1% in 1978.

Small firms play an even more important role in Canada as a whole than they do in Atlantic Canada. They account for a slightly higher proportion of total employment and accordingly deliver a larger share of new jobs. As Table 2.2 shows, firms with fewer than 100 employees in Canada accounted for 37% of employment in 1987 and 81% of the new jobs created during 1979-88.

Table 2.2³
The evolution of employment patterns in Canada

Distribution, by firm size, of employment in 1978 and 1987, and the contribution of firms within each size group toward new jobs created in the intervening years.

Number of employees in the firms	Employment distribution 1978		New jobs created 1979-88		Employment distribution 1987†	
	(000s)	%	(000s)	%	(000s)	%
Fewer than 5	620.0	6.8	1,235.5	45.1	866.9	7.8
5 - 19	1,013.4	11.1	609.8	22.2	1,391.0	12.4
20 - 49	805.1	8.8	243.9	8.9	1,063.8	9.5
50 - 99	619.6	6.8	135.7	5.0	816.4	7.3
Small firms	3,058.1	33.4	2,224.1	81.2	4,138.1	37.0
100 - 499	1,428.6	15.6	269.8	9.8	1,746.4	15.6
500 or more	4,672.3	51.0	245.7	9.0	5,296.6	47.4
All firms	9,159.0	100.0	2,739.6	100.0	11,181.1	100.0

†See note to Table 2.1

The comparison with Canada does not tell the whole story, however, as there are some wide regional differences. The relative importance of small firms in the Atlantic provinces is, in fact, closer to that of Ontario than it is to that of the rest of the country: Ontario's small firms employed 34% of the workforce in 1987 and accounted for 74% of the new jobs during the 10 years to 1988. By contrast, small firms play a larger role in Quebec and the West, where they employed

³Source: *Employment Dynamics*

39.5% of the workforce in 1987 and accounted for 90% of the new jobs during 1979-88.

Moreover, the composition of the small business category in the Atlantic region differs significantly from the composition elsewhere in Canada, particularly Ontario. The smallest firms (those that employ fewer than 5 people) are more prevalent in the Atlantic provinces, where they accounted for 78% of firms employing fewer than 100 people in 1987, compared to 76% in Canada and 73% in Ontario. These micro firms employed 8.4% of the region's total workforce in 1987, compared to 7.8% in Canada and 6.3% in Ontario. More important, they accounted for 49% of all the new jobs created in Atlantic Canada during 1979-88 compared to 45% in Canada and 36% in Ontario.

By contrast, the larger small firms (those employing more than 20 people) are relatively weak in the Atlantic region, generating only 8.7% of the new jobs, compared to 13.9% in Canada and 17.7% in Ontario. These larger small firms are critical to an economy, because they are generally the most growth-oriented and supply the candidates to become significant mid-sized and large employers. Indeed they are the foundation of Ontario's strong growth during the past decade.

To put it another way, in Ontario, micro businesses (with fewer than five employees) accounted for 48% of the total number of jobs created by all small businesses (with fewer than 100 employees); In Canada, they carried 56% of a smaller load; in the Atlantic provinces, they accounted for 64% of an even smaller load.

The consequences of this weakness in the larger small firms can be seen in what happened to mid-sized firms during the decade. In Canada as a whole, these vital firms maintained their share of total employment at 15.6%. Their share declined to 13.4% in 1987 from 16.3% in 1978 in the Atlantic provinces, however, while it rose to 15.8% from 14.8% in Ontario.

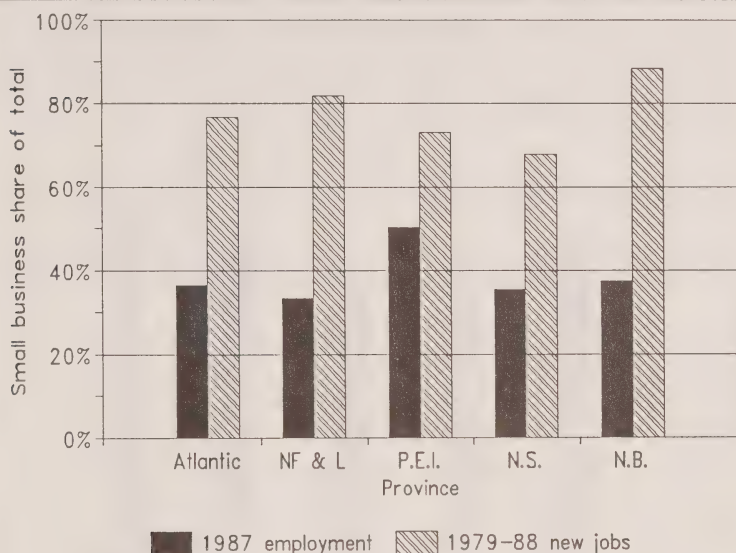
At the other end of the spectrum, the Atlantic region relied more heavily for new jobs on the largest organizations than did other provinces. Again, there is some similarity with Ontario, in that big organizations employed fractionally more than 50% of the workforce in 1987 in both regions, compared to 47% in Canada as a whole. And the large employers created 13% of the new jobs in the Atlantic region and 15% in Ontario but only 9% in Canada as a whole. The similarity with Ontario is

only superficial, however, because the large organizations are predominantly governments in the east, and businesses in Ontario. This is discussed in greater detail in the next section of this chapter.

These statistics for Atlantic Canada hide some significant differences between the four provinces, as Chart 2.2 shows.

Chart 2.2⁴
Where small firms congregate

Percentage of total employment in small firms in 1987 and percentage of total new jobs during 1979-88 attributable to small firms. Atlantic region.



The largest concentration of small firms is in Prince Edward Island, where more than half the labour force works in small firms. Despite this ubiquity, however, small firms did not dominate job creation in P.E.I. to the extent they did in some other provinces. During 1979-88, they accounted for only 72%

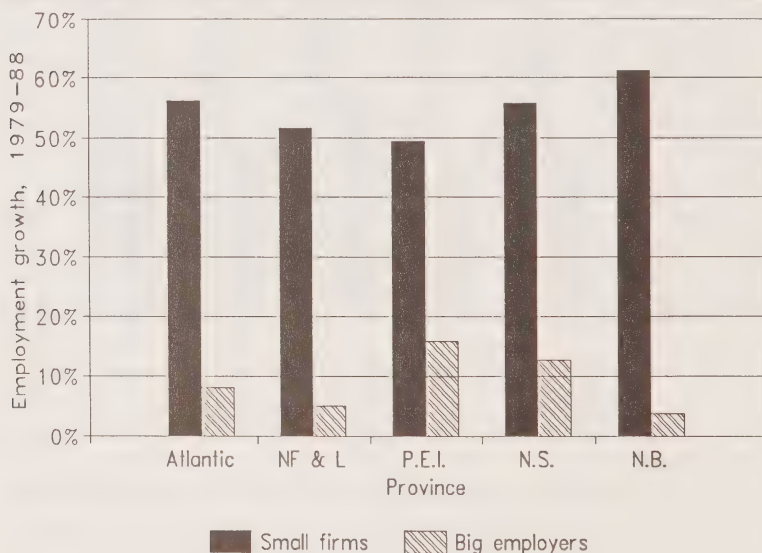
⁴Source: *Employment Dynamics*

of jobs created in the province compared to 88% in New Brunswick and 68% in Nova Scotia.

This chart hints at the big differences between the growth rates of small firms in different jurisdictions. When small firms represent a larger share of total employment, they do not necessarily generate a larger share of the new jobs. And vice versa. This suggests there are variations in the growth rates of small firms in the four provinces, which is true, but only part of the story. The difference lies just as much in the widely differing growth rates of big employers, as Chart 2.3 shows.

Chart 2.3⁵
Small firms outperform big firms in Atlantic Canada

Increase in employment during 1979-88 by size of firm in 1978 or in year of startup if later than 1978 (small firms employ fewer than 100 people).



The big employers in P.E.I. increased their employment by 16% over the 10 years to 1988, compared to 12½% in Nova

⁵Source: *Employment Dynamics*

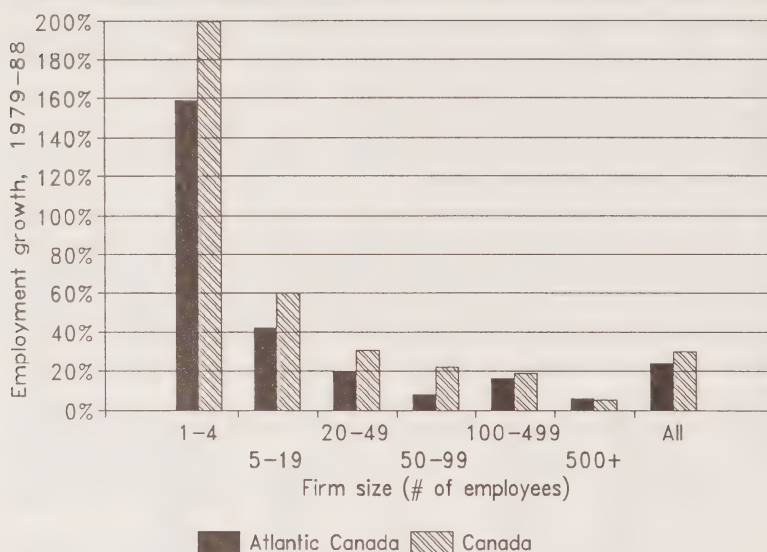
Scotia, 5% in Newfoundland and only 4% in New Brunswick. The growth of large employers in Nova Scotia came close to matching that of large employers in Ontario, which grew 14% during the period, but small firms in Nova Scotia grew quite a bit more slowly than their counterparts in Ontario, so they accounted a smaller share of total job gains (68%) than Ontario and other jurisdictions in the rest of Canada. Nonetheless, relative to the other Atlantic provinces, Nova Scotia's small firms grew at almost exactly the average rate, increasing by 56% over the decade to 1988, which is equivalent to an average annual growth rate of 4.5%. The best performance from small firms came from New Brunswick, where they grew 61% over the decade, or an average of 4.9% a year.

Chart 2.4 takes these comparisons a little further, showing the growth rates for each of the four size categories of small businesses. It is immediately apparent that all the action is in the micro businesses, which grew 159% in the Atlantic provinces in the decade. That is equivalent to an average annual growth rate of 10%. While that is impressive, it does not match the growth rate for these firms in Canada, where they increased employment by 199%, or an average of slightly more than 11½%.

Growth rates were significantly slower in Atlantic Canada than in Canada for every size category except the largest employers, where growth in the region was slightly higher than the national growth rate over the decade, at 5.8% compared to 5.3%. In mid-sized organizations employing 100-499 people, the region also did well, averaging growth of 16% over the decade, or 87% of the national rate. Among the small firms, the larger small firms employing more than 50 people were by far the weakest category, growing only 7.8% in the decade, or 36% of the national rate of 22%. The best performance was in small firms employing fewer than five people; they grew one and a half times in the decade, which was impressive even if it was only 80% of the national rate. The small firms employing five to 50 people, averaged almost 70% of the national rate, growing 42% during the decade.

Chart 2.4⁶
Atlantic Canada grows jobs more slowly

Employment increase in Canada and in Atlantic Canada during 1979-88, by size of firm in 1978 (or at startup if the firm did not exist in 1978)



The market and the funded sectors

During the 1980s, the public sector was a major force behind job creation everywhere in Canada (and much of the rest of the world, for that matter). It is likely, however, that governments will be forced during the 1990s to tighten their belts, because of their intractable deficits and a large overhang of debt, both of which have significantly reduced their flexibility. In the search for clues over the past decade as to what might happen in the coming decade, the performance of the private sector is more likely to indicate future trends than the performance of the combined public and private sectors.

⁶Source: *Employment Dynamics*

This analysis is particularly relevant in the Atlantic provinces, which have traditionally had a stronger public sector than elsewhere in Canada. The public sector is more than public administration, however; services like education and health and welfare respond to governmental stimuli rather than market forces. To reflect this reality, Table 2.3 introduces the concept, and demonstrates the extent, of the funded sector, which groups all industries that do not have to seek revenues in a free market because they are funded by governments.

Table 2.3⁷
The reach of the funded sector

The numbers and the relative share of total jobs in 1987 and job growth during 1979-88 in the market and funded sectors in the Atlantic provinces, and the equivalent average annual growth rate within each sector

	Market sector	Funded† sector	Total
ATLANTIC CANADA			
Number of jobs, 1987 (000s)	456.2	222.3	678.5
% share	67.0%	33.0%	100.0%
New jobs, 1979-88 (000s)	109.0	50.3	159.3
% share	68.4%	31.6%	100.0%
Job growth, 1979-88	23.9%	22.6%	23.5%
Annual average growth	2.2%	2.1%	2.1%
CANADA			
Number of jobs, 1987 (000s)	8,458.4	2,722.4	11,180.8
% share	76.1%	23.9%	100.0%
New jobs, 1979-88 (000s)	1,992.4	747.1	2,379.5
% share	72.7%	27.3%	100.0%
Job growth, 1979-88	28.2%	35.6%	29.9%
Average annual growth	2.5%	3.1%	2.7%

†The funded sector consists of public administration, education and health and welfare.

⁷Source: *Employment Dynamics*

This table shows that one third of total employment in 1987 was in the funded sector, compared to less than one quarter in Canada as a whole. This slightly overstates the funded sector in both jurisdictions, because there are some market-based organizations in education and health and welfare, but the vast majority of employers in these industries are publically funded, so the conclusions are reliable.

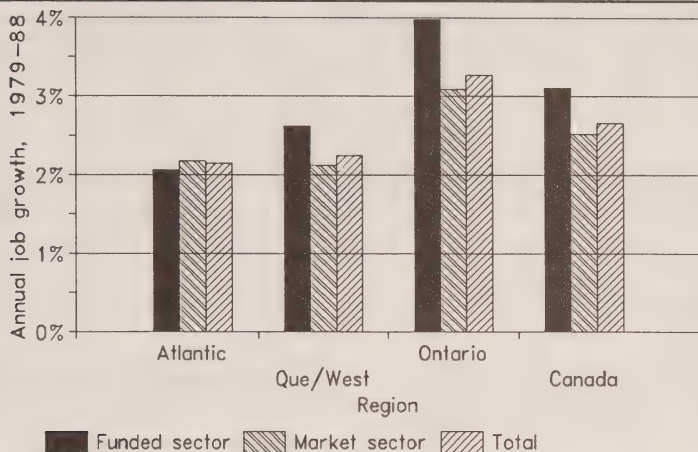
The funded sector in the Atlantic region contributes a slightly lower share of new jobs than its share of total employment, whereas Canada's funded sector contributes slightly more. This is because growth rates in the market sector were higher than in the funded sector during the 1980s in Atlantic Canada (23.9% compared to 22.6%), whereas the market sector grew less strongly in Canada as a whole (28.2% compared to 35.6%).

It is problematic trying to assess causes for the different growth rates in Atlantic Canada and the country as a whole, but there do appear, from an analysis of this region and others, to be some correlations between the rate of job creation in the private sector and the corresponding rate in the funded sector. The highest growth rate in the funded sector during 1979-88 was in Ontario, which averaged 4.0% a year, compared to 2.6% in Quebec and the West and 2.1% in Atlantic Canada. As Chart 2.5 shows, growth rates in the market sector followed the same regional trends, with Ontario's 3.1% well ahead of the rest of the country, which averaged 2.1%.

It is possible to argue that the growth of the funded sector provides the impetus for market-sector growth, but anecdotal evidence indicates the contrary: in regions of slower growth, there may be a greater demand for government intervention, but the response is necessarily restricted due to scarcity of funds. It is a more likely hypothesis that the greater the activity generated in the private sector, the more expansive governments are likely to feel. If this intuitive conclusion is accurate, then the engine of new job creation is the market sector, while the funded sector acts as the turbo charger.

Chart 2.5⁸ Who leads the growth stakes?

Average annual increase in employment in the funded and market sectors, 1979-88, in Canada, the Atlantic provinces, Ontario and Quebec/the West.



When the market sector is analyzed, the picture changes dramatically. As Table 2.4 shows, small firms accounted for 96% of the new jobs created in Atlantic Canada during 1979-88.

It is important to note that almost half the people who work in the market sector are employed by small firms. They easily outnumber the people working in firms with more than 500 employees, which attract far more attention. These big firms, moreover, are declining. In 1978, they represented 41% of the market sector (very close to the 43% share of small business), but their workforce actually declined in the following decade, and they ended up in 1987 with 37% of the employees in the market sector. Their share would have been even lower had not some mid-sized firms grown into large firms in the interim.

⁸Source: *Employment Dynamics*

Table 2.4⁹
The market† sector in Atlantic Canada

Employment in 1987 and job gains during 1979-88 in the market sector, by size of firm, and distribution by size of firm, for Atlantic Canada

Number of employees	Employment, 1987		New jobs, 1979-88	
	(000s)	%	(000s)	%
Fewer than 5	58.2	10.9	69.7	63.9
5 - 19	94.3	17.7	26.0	23.9
20 - 49	63.6	11.9	7.8	7.2
50 - 99	42.7	8.0	0.8	0.7
All small firms	258.9	48.6	104.3	95.7
100 - 499	77.6	14.6	7.5	6.9
500 or more	196.0	36.8	-2.8	-2.6
All firms	532.5	100.0	109.0	100.0

†The market sector includes all industries apart from those in the funded sector. They derive their revenues from competing in a marketplace.

The core of the job-creation process rests with micro businesses employing fewer than five people - or rather, employing fewer than five when they started out in business. Thanks to their high growth rates, as discussed earlier, these firms accounted for almost two thirds of the jobs created during 1979-88. The Atlantic region relies on these firms for jobs to an even greater degree than the country as a whole. As Table 2.5 shows, micro businesses accounted for 56% of the total new jobs in Canada during the decade to 1988, even though their growth rate was faster. The reason, of course, is that growth in the larger small firms was much stronger in Canada than in the Atlantic region.

In Canada, firms with 20 to 99 employees accounted for 20% of the market-sector workforce in 1987, having created more than 15% of the new jobs during the previous decade. In the Atlantic provinces, these firms accounted for the same proportion of employment in 1987, but were responsible for only 8% of the new jobs in the previous 10 years. The major difference between the Atlantic provinces and Canada in the

⁹Source: *Employment Dynamics*

sources of new jobs is that Canada's larger small firms contributed more strongly and the largest employers declined more sharply. All small firms accounted for 98.5% of the new jobs in Canada, compared to 95.7% in the region. Big firms in the market sector, employing more than 500 people, shrank by 6.3% in Canada, compared to the region's 2.6%.

Table 2.5 ¹⁰
The market† sector in Canada

Employment in 1987 and job gains during 1979-88 in the market sector, by size of firm, and distribution by size of firm, for Canada

Number of employees	Employment, 1987		New jobs, 1979-88	
	(000s)	%	(000s)	%
Fewer than 5	771.1	9.1	1,111.2	55.8
5 - 19	1,285.9	14.9	541.4	27.2
20 - 49	983.0	11.6	208.9	10.5
50 - 99	717.0	8.5	100.5	5.0
All small firms	3,757.7	44.5	1,962.0	98.5
100 - 499	1,382.8	16.3	154.6	7.8
500 or more	3,317.9	39.2	-124.2	-6.3
All firms	8,458.4	100.0	1,992.4	100.0

†See note to Table 2.4

When these statistics are analyzed for each province in the region, there are some significant differences. Big firms in the market sector are strongest by far in Nova Scotia, where they were a strong force for job creation, accounting for 18½% of the new jobs. In New Brunswick and Newfoundland, they retrenched sharply, reducing their employment by the equivalent of 12%-15% of the net new jobs created by all firms. In PEI, big firms employ only 17% of the people in the market sector, so they are a small part of the overall picture and statistically a bit volatile.

The larger small firms, those employing 20 to 100 people, were consistently weak in all the provinces within the region,

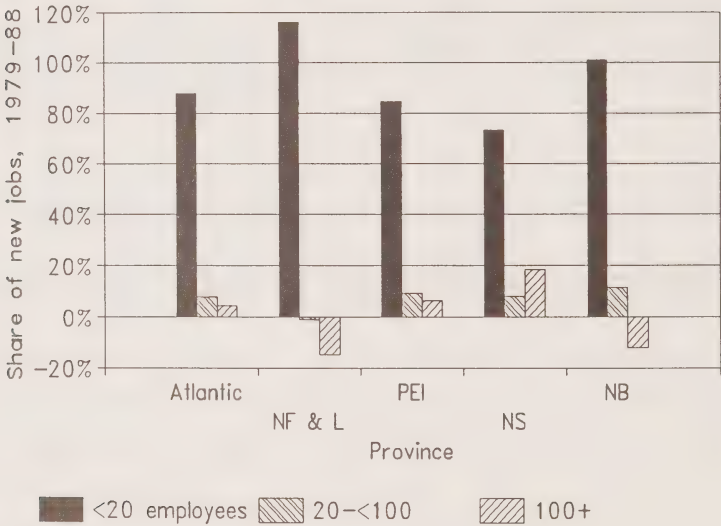
¹⁰Source: *Employment Dynamics*

especially in Newfoundland, where they actually shed employment, declining by 1.2%, as Chart 2.6 shows.

The share of the smallest firms (employing fewer than 20 people) in job creation was, of course, strong throughout all the provinces, especially Newfoundland, where they were the only category to grow, accounting for 116% of net job creation. Small firms were also unusually important in New Brunswick, where they accounted for just over 100% of the new jobs.

Chart 2.6 ¹¹
Where the jobs come from in the market sector

Share, by firm size, of total new jobs created during 1979-88, for each province and the region



¹¹Source: *Employment Dynamics*

Breakout by industry

Expansion is easier in some industries than others, so it makes a big difference to an economy's potential whether it is well represented in growth industries or concentrated in declining industries. The nature of the political environment, however, is that governments throughout the Western world tend to be forced into focusing on softening or even reversing the decline of weak sectors rather than encouraging the growth of strong sectors or developing the new emerging industries. The intensity of these pressures mounts with the domestic perception of economic weakness. There is more pressure in Canada to protect declining industries than there is in the rest of the developed world; and more pressure in the Atlantic provinces than in Canada. This policy orientation means that most government policy is aimed at the goods-producing sector (farming, fishing, mining, manufacturing and construction), despite the incontrovertible evidence that this sector has been relentlessly declining for most of this century.

Canada has resisted this trend more than many other countries because it is so rich in natural resources, but the realities of the modern global economy apply here as elsewhere. As Chart 2.7 shows, there was no let-up in this trend in the Atlantic provinces during the 1980s. In 1987, the goods-producing sector employed 22% of the workforce, but it accounted for only 12% of the new jobs created during 1979-88. In 1978, the sector accounted for 25% of total employment.

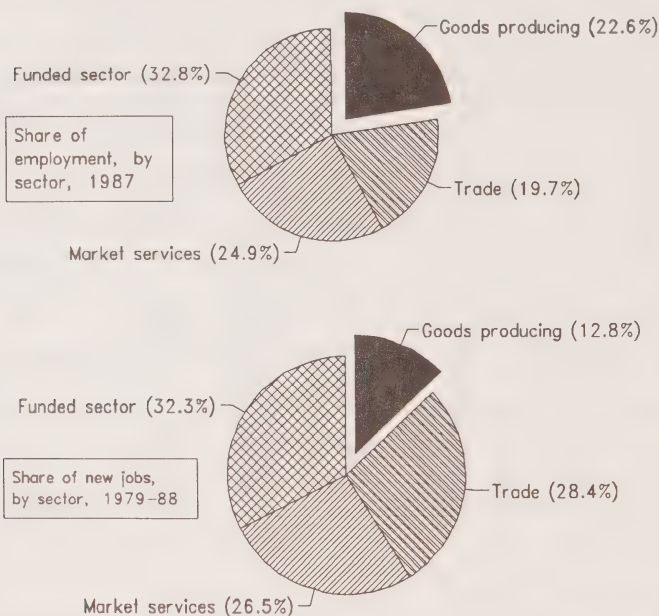
Even this probably distorts the real situation, because the goods-producing sector went on an amazing hiring binge in 1987 and 1988, only to reverse itself dramatically in 1990 and 1991. When the statistics are available for the three years subsequent to 1988 (the most recent available in this statistical series), the proportion of the workforce employed in the goods-producing sector will be seen to have declined significantly from the levels of 1987 and 1988, not to mention 1978.

The principal sources of new jobs to replace the jobs lost in the goods-producing sector have been the funded sector and wholesale and retail trade. Market services increased their share of employment only slowly during the 1980s, although this really represents a combination of severe cutbacks in one industry (transportation, communication and utilities) and

strong growth in all the other industries of the sector (see later this chapter).

Chart 2.7 ¹²
The decline of the goods-producing¹³ sector

Share of total employment in 1987 and share of new jobs created during 1979-88, of each of the four main sectors of the Atlantic region's economy



These trends are quite similar to those in Canada as a whole, except that the goods-producing sector has a bigger

¹²Source: Employment Dynamics

¹³The goods-producing sector includes primary (fishing, forestry and farming), mining, manufacturing and construction. Trade includes wholesale and retail trade. Market services includes personal and business services, transportation, communications and utilities, finance, insurance and real estate and personal and business services. The funded sector includes public administration, education and health and welfare.

share of employment in Canada and fell harder during the 1980s, to 26% of the workforce in 1987 from 30% in 1978.

Employers in the goods-producing sector have traditionally been the most strongly oriented toward big business; they tend to operate on the assumption that "bigger is better", while small firms in the market service industries can often claim that they provide better service, because they are less bureaucratic. The trend away from goods-producing industries has therefore been consistent with the switch toward small firms as the engine of employment growth.

As Table 2.6 shows, however, even the goods-producing industries have been touched by the swing to small firms.

Table 2.6 ¹⁴

How big is big, and how small is small, in Canada?

For each of the four main sectors, a comparison of the situations in 1978 and 1987 in terms of the number of firms and the average number of employees in small, big and all firms

	Goods-producing	Trade	Market services	Funded services	Total
<i>Number of firms in:</i>					
1978	170,741	150,914	224,751	54,413	600,819
1987	244,270	199,876	361,335	80,514	885,635
<i>Average number of employees per firm in 1978 in:</i>					
Small firms	5.3	5.8	5.1	5.0	5.2
Big firms	526.0	527.0	747.3	919.2	665.7
All firms	16.0	10.6	13.1	38.6	15.2
<i>Average number of employees per firm in 1987 in:</i>					
Small firms	4.6	5.6	4.5	4.9	4.7
Big firms	474.7	516.5	594.7	939.1	615.7
All firms	12.0	10.5	10.3	34.0	12.6

Notes: 1. Small firms employ fewer than 100 people, big firms 100 or more.

2. The determination of firm size is by the number of employees in all of Canada. Many of the large firms in Atlantic Canada are mid-sized or small operations within the region, but are classed as big because of the size of their employer within the country.

3. A proportion of the firms are unclassified (representing about 3% of the firms and less than 1% of employment); these have been arbitrarily included with the market services sector.

The average employment per firm in the goods-producing sector fell to 12 from 16 over the 10 years to 1987. In propor-

¹⁴Source: *Employment Dynamics*

tional terms, this is the steepest decline (25%) of the four sectors. The major cause of this trend was the massive influx of new businesses; the number of firms in the goods-producing sector jumped 43% in the decade, all of it small firms, so average employment dropped, because young firms generally employ fewer people. However, an additional cause of the falling average employment per firm was downsizing in the big firms; average employment in big, goods-producing firms declined 10% to 475 from 526 in the decade to 1987.

The other sector where average employment per firm declined rapidly is market services, where the average was 10.3 in 1987, compared to 13.1 in 1978. In this sector, the decline was most dramatic in big firms, where the average fell to 595 from 747, a drop of more than 20%. This was mainly because of the dramatic downsizing in transportation, communications and utilities, a phenomenon that affected every region of Canada during the decade. There was also a very large surge in business formations in market services, where the number of firms grew 61% in the decade.

Table 2.7 shows that the trends are similar in the Atlantic provinces, where the average number of employees per firm is lower, but fell at a comparable pace. By 1987, employment per firm had fallen to 9.9, compared to 12.6 in 1978. There was, however, a significant difference in the Atlantic region's big firms, whose average employment actually rose in all sectors except market services. The likely explanation for this is that many of the "big" firms in the Atlantic region are regional divisions of major companies headquartered elsewhere in Canada. (Firm size is determined by their national employment.) The average employment in the region's big firms in the three sectors outside the funded sector is less than 100 in every case, which can only mean they are mostly branch plants, since big firms are defined as those employing 100 or more people.

What happened is that the big firms closed a lot of their branch operations in the region, but increased employment in those they kept running. In the goods-producing sector, the number of big firms declined 17% during the decade, while their employment declined 6% (compared to employment growth of 12½% in the big employers in the three other sectors of the economy). The net effect is that employment in big firms

fell less sharply in the Atlantic region than elsewhere in Canada.

Table 2.7¹⁵
How small is big and small, in Atlantic Canada?

For each of the four main sectors, a comparison of the situations in 1978 and 1987 in terms of the number of firms and the average number of employees in small, big and all firms

	Goods-producing	Trade	Market services	Funded services	Total
<i>Number of firms in:</i>					
1978	15,981	14,079	18,335	5,564	53,959
1987	23,139	18,076	31,823	7,617	80,655
<i>Average number of employees per firm in 1978 in:</i>					
Small firms	4.1	5.1	4.3	4.4	4.4
Big firms	60.6	67.0	96.4	509.2	114.7
All firms	10.5	8.5	10.1	40.0	12.6
<i>Average number of employees per firm in 1987 in:</i>					
Small firms	3.5	5.1	3.4	4.2	3.8
Big firms	64.6	67.9	82.3	629.6	120.1
All firms	7.7	8.6	6.8	34.4	9.9

Notes: 1. Small firms employ fewer than 100 people, big firms 100 or more.

2. The determination of firm size is by the number of employees in all of Canada. Many of the large firms in Atlantic Canada are mid-sized or small operations within the region, but are classed as big because of the size of their employer within the country.

3. A proportion of the firms are unclassified (representing about 3% of the firms and less than 1% of employment); these have been arbitrarily included with the market services sector.

In market services, however, average employment in big firms fell, as it did in Canada as a whole. The reason for this is that employment fell dramatically in transportation, communications and utilities, which is a locally-based sector and which downsized just as drastically as its counterparts elsewhere in Canada. Without this industry, the big firms in market services would have increased their average employment, too.

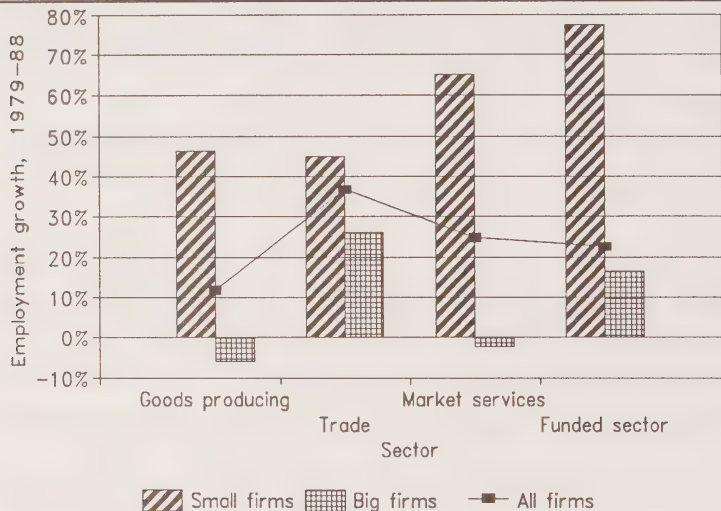
This is illustrated more fully in Chart 2.8, which shows how big-firm employment in the Atlantic provinces declined in the goods-producing and market services sectors, but was relatively strong in trade and the funded sector. In all cases, employment in small firms grew more than 40% over the decade, the strongest sector being market services, which grew 65%. (Small

¹⁵Source: *Employment Dynamics*

employers in the funded sector are not significant, since there are so few of them.) Big firms in trade grew 26% in the decade, a better performance than their counterparts in the rest of the country, which grew only 17%.

Chart 2.8 ¹⁶
Small firms grow much faster in all sectors

Increase in employment between 1979 and 1988 in the four main sectors, separately for small firms (with fewer than 100 employees), big firms and all firms. Atlantic Canada



A statistical overview of the job market

The following series of tables provides the detail, by industry within each sector, of the overall trends discussed so far regarding the evolution of the job market in the decade up to 1988. They examine the number of firms, employment distribution and job creation. In each case, data is provided for Canada as well as for the Atlantic region.

¹⁶Source: *Employment Dynamics*

Table 2.8¹⁷
***Distribution of firms in the Atlantic region,
 by industry and size***

Number and distribution of firms, by industry, and number and distribution of small firms, by industry. Atlantic region, 1987.

Industry	Number of firms, 1987	Industry share of total	Number of small firms	Industry share of total	Small-firm share of industry
		%		%	%
Primary	9,051	11.2	9,045	11.8	99.9
Mining	288	0.4	197	0.3	68.4
Manufacturing	4,687	5.8	3,377	4.4	72.1
Construction	9,113	11.3	8,932	11.7	98.0
Goods-producing	23,139	28.7	21,551	28.2	93.1
Wholesale	4,510	5.6	3,904	5.1	86.6
Retail	13,566	16.8	13,171	17.2	97.1
Trade	18,076	22.4	17,075	22.3	94.5
T,C & U†	3,788	4.7	3,557	4.7	93.9
F,I & RE†	3,344	4.2	2,936	3.8	87.8
P & B services†	21,793	27.0	21,184	27.7	97.2
Market services	28,925	35.9	27,677	36.2	95.7
Community services†	6,960	8.6	6,670	8.7	95.8
Public Administration	657	0.8	579	0.8	88.1
Funded sector	7,617	9.4	7,249	9.5	95.2
Unclassified	2,898	3.6	2,895	3.8	99.9
ALL INDUSTRIES	80,655	100.0	76,447	100.0	94.8

†Notes: The abbreviations are for Transportation, Communications and Utilities (T,C & U), Finance, Insurance and Real Estate (F,I & RE) and Personal and business services (P & B services). Community services includes education and health and welfare.

Table 2.8 shows that 95% of the 80,000-plus firms in the region employ fewer than 100 people. The overwhelming number of small firms is consistent across all four major sectors, but there are some significant exceptions in specific

¹⁷Source: *Employment Dynamics*

industries; in mining, manufacturing and finance, insurance and real estate, small firms accounted for only 68%, 72% and 88% respectively of the total number of firms. In these industries, small firms are a significantly weaker presence in the region than they are in other industries.

Turning to the distribution of firms between industries, it is much harder to pick up the differences between small and big firms, since the small firms outnumber the big ones so heavily. Chart 2.9 shows, instead, the other side of the coin, which is the distribution of *big* firms between industries, for Canada and the Atlantic provinces.

This chart illustrates how, compared to Canada, the region's big firms are more concentrated (and small firms are therefore relatively more sparse) in manufacturing, wholesale trade and finance, insurance and real estate. This is another manifestation of the branch-plant phenomenon; national firms can support more operations in the region than would be possible if they were based here. This makes it harder for local entrepreneurs to compete, so these industries are relatively less popular among Atlantic entrepreneurs than they are among entrepreneurs in the rest of the country.

On the other hand, the region's big firms are less concentrated (and small firms therefore relatively more populous) in primary industries, personal and business services, community services, and public administration, all of which are locally based industries. The last two industries, in the funded sector, may not be significant, because they merely indicate that the scale of government is smaller in the Atlantic region, as befits the smaller population. But it is significant that Atlantic entrepreneurs have a greater predilection for personal and business services and for farming and fishing than do their counterparts elsewhere in the country. (Chapter 3 confirms this observation, with indications that the rate of startups in the region is higher in these industries than in other industries.)

The reliance on primary industries is, of course, part of a long tradition. The strength in personal and business services is consistent with the rest of the country, where personal and business services grew faster than any other sector, as is demonstrated later in this chapter. Chapter 3 reveals, however, that entrepreneurs in the Atlantic region focus on a different

part of personal and business services than do their counterparts in the rest of the country.

Chart 2.9 ¹⁸
Where the big firms congregate

Distribution of the number of big firms between industries in Atlantic Canada and Canada, 1987

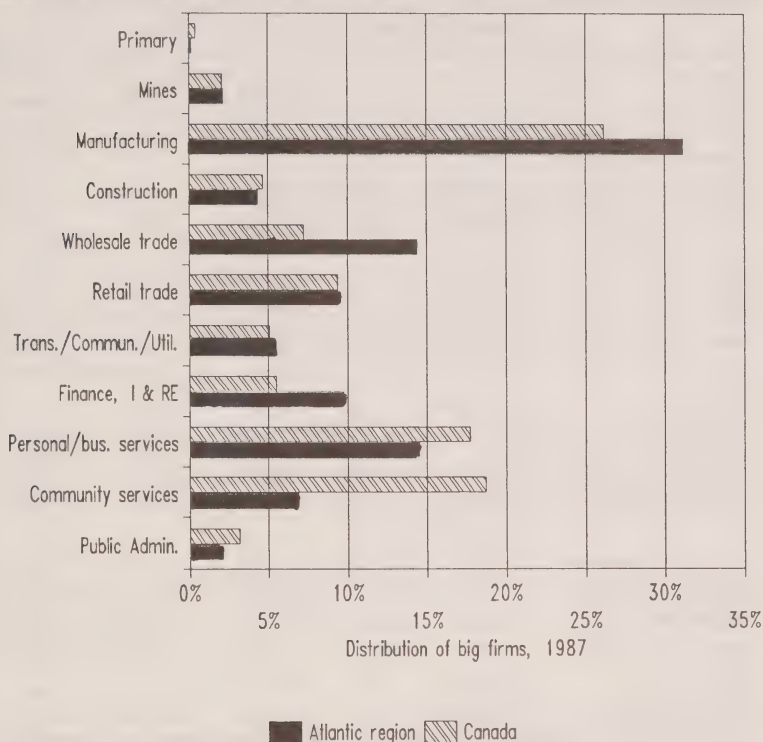


Table 2.9 provides greater detail for Canada, showing that, in 1987, small firms constituted a higher percentage - almost 99% - of the total of 885,000 firms than do their counterparts in the Atlantic region. Moreover, the small firms are evenly represented in all industries.

¹⁸Source: *Employment Dynamics*

Table 2.9 ¹⁹
***Distribution of firms in Canada,
by industry and size***

Number and distribution of firms, by industry, and number and distribution of small firms, by industry. Canada, 1987

Industry	Number of firms, 1987	Industry share of total	Number of small firms	Industry share of total	Small-firm share of industry
		%		%	%
Primary	79,449	9.0	79,401	9.1	99.9
Mining	5,597	0.6	5,360	0.6	95.8
Manufacturing	56,132	6.3	53,144	6.1	94.7
Construction	103,092	11.6	102,561	11.7	99.5
Goods-producing	244,270	27.6	240,466	27.5	98.4
Wholesale	52,580	5.9	51,755	5.9	98.4
Retail	147,296	16.6	146,229	16.7	99.3
Trade	199,876	22.6	197,984	22.6	99.1
T,C & U†	38,208	4.3	37,634	4.3	98.5
F,I & RE†	54,539	6.2	53,913	6.2	98.9
P & B services†	238,216	26.9	236,194	27.0	99.2
Market services	330,963	37.4	327,741	37.5	99.0
Community services†	74,666	8.4	72,532	8.3	97.1
Public Administration	5,488	0.6	5,128	0.6	93.4
Funded sector	80,154	9.1	77,660	8.9	96.9
Unclassified	30,372	3.4	30,346	3.5	99.9
ALL INDUSTRIES	885,635	100.0	874,197	100.0	98.7

†Notes: The abbreviations are for Transportation, Communications and Utilities (T,C & U), Finance, Insurance and Real Estate (F,I & RE) and Personal and business services (P & B services). Community services includes education and health and welfare.

As might have been expected, Canada has a lesser proportion of its businesses in the primary industries than do the Atlantic provinces. It also has greater proportion of businesses in finance, insurance and real estate.

¹⁹Source: *Employment Dynamics*

It is worth noting that the industries in which the region's entrepreneurs are under-represented are also those that play a lesser role in the region than they do in the country as a whole.

The picture that emerges from an analysis of employment is quite different, as Table 2.10 shows.

Table 2.10²⁰
***Distribution of employment in the Atlantic region,
by industry and size***

Amount and distribution of employment, by industry, and amount and distribution of employment in small firms, by industry. Atlantic region, 1987

Industry	Number of jobs, 1987	Industry share of total	Jobs in small firms	Industry share of total	Small-firm share of industry
	(000s)	%	(000s)	%	%
Primary	16.6	2.1	14.1	4.9	84.9
Mining	13.6	1.7	1.8	0.6	13.2
Manufacturing	110.2	13.9	28.9	10.0	26.2
Construction	37.1	4.7	30.1	10.4	81.1
Goods-producing	177.6	22.3	74.9	25.9	42.2
Wholesale	37.7	4.7	22.4	7.7	59.4
Retail	118.1	14.9	65.4	22.6	55.4
Trade	155.8	19.6	87.8	30.3	56.4
T,C & Ut†	57.5	7.2	13.8	4.8	24.0
F,I & RE†	37.6	4.7	12.5	4.3	33.2
P & B services†	101.7	12.8	67.8	23.4	66.7
Market services	196.8	24.8	94.1	32.5	47.8
Community services†	107.3	13.5	25.0	8.6	23.3
Public Administration	155.1	19.5	5.7	2.0	3.7
Funded sector	262.4	33.0	30.7	10.6	11.7
Unclassified	2.3	0.3	2.0	0.7	87.0
ALL INDUSTRIES	794.9	100.0	289.6	100.0	36.4

†Notes: The abbreviations are for Transportation, Communications and Utilities (T,C & U), Finance, Insurance and Real Estate (F,I & RE) and Personal and business services (P & B services). Community services includes education and health and welfare.

²⁰Source: *Employment Dynamics*

As mentioned previously, small firms employ 36% of the workforce, although 95% of the businesses are classified as small. The funded sector obviously has few people working for small employers (12%), while trade has 56%, market services 48% and goods-producing industries 42%. The pockets of small-firm concentration are primary (where 85% of employment is in small firms), construction (81%) and personal and business services (67%). Trade is the fourth important industry for small firms, which employ 55%-60% of the people who work in the industry.

These pockets of small-firm concentration mean that the distribution of employment among small firms differs significantly from that among all firms in the region. Small primary firms employ 5% of all the people who work for small firms, while primary firms of all sizes employ 2% of the total workforce. Similar disparities occur in construction, retail trade and personal and business services, in each of which their share of small-firm employment is one and half to two times bigger than their share of total employment. The compensating underrepresentation is, of course, in the funded sector and in transportation, communications and utilities. The latter industry employs 4.8% of the people who work in small firms and 7.2% of the total workforce.

Another way of looking at these patterns is to compare, within each of the four main sectors, the share of total employment with the share of the total number of businesses. The goods-producing sector, which has 29% of the region's businesses, employs only 22% of its workforce, mainly because farming and fishing and construction employ only 7% of the workforce, despite accounting for 22½% of the businesses in the region. Likewise, market services account for 36% of the region's businesses, but only 25% of its employment, largely because personal and business services employ 13% of the workforce in 27% of the businesses.

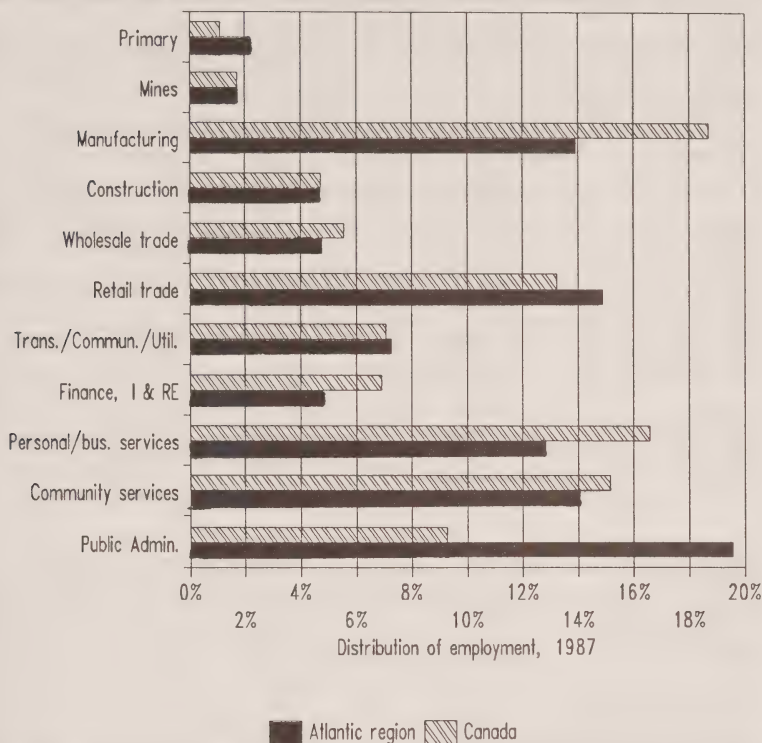
This distribution of employment is quite different from that of Canada, as is illustrated in Chart 2.10 and detailed in Table 2.11.

The funded sector in Canada employs 24% of the workforce, compared to 33% in the Atlantic region. The difference is concentrated entirely in Public Administration, which

accounts for 19½% of total employment in the Atlantic provinces, compared to 9¼% in Canada.

Chart 2.10²¹
Where the jobs are

Distribution, by industry, of employment. Atlantic region and Canada, 1987.



The other areas where regional employment patterns are sharply different from those of Canada are manufacturing and personal and business services, both of which employ a lower proportion of the workforce in the Atlantic provinces than they do in Canada as a whole. The difficulties in manufacturing have

²¹Source: *Employment Dynamics*

been well documented. In personal and business services, the lower proportion of employment in the region suggests that, despite solid growth, the region still has some way to go to building the desired presence in this important industry.

Table 2.11 ²²
***Distribution of employment in Canada,
by industry and size***

Amount and distribution of employment, by industry, and amount and distribution of employment in small firms, by industry. Canada, 1987

Industry	Number of jobs, 1987	Industry share of total	Jobs in small firms	Industry share of total	Small-firm share of industry
	(000s)	%	(000s)	%	%
Primary	122.5	1.1	112.2	2.7	91.6
Mining	189.4	1.7	37.5	0.9	19.8
Manufacturing	2,084.8	18.6	570.1	13.8	27.3
Construction	525.8	4.7	397.1	9.6	75.5
Goods-producing	2,922.5	26.1	1,116.9	27.0	38.2
Wholesale	616.8	5.5	356.5	8.6	57.8
Retail	1,474.3	13.2	757.3	18.3	51.4
Trade	2,091.1	18.7	1,113.8	26.9	53.3
T, C & U†	787.3	7.0	171.8	4.2	21.8
F, I & RE†	771.5	6.9	220.5	5.3	28.6
P & B services†	1,846.2	16.5	1,096.7	26.5	59.4
Market services	3,405.0	30.5	1,489.0	36.0	43.7
Community services†	1,689.3	15.1	333.0	8.0	19.7
Public Administration	1,033.1	9.2	47.4	1.1	4.6
Funded sector	2,722.4	24.3	380.4	9.2	14.0
Unclassified	39.8	0.4	38.0	0.9	95.5
ALL INDUSTRIES	11,180.8	100.0	4,138.1	100.0	37.0

†Notes: The abbreviations are for Transportation, Communications and Utilities (T, C & U), Finance, Insurance and Real Estate (F, I & RE) and Personal and business services (P & B services). Community services includes education and health and welfare.

²²Source: *Employment Dynamics*

As has been mentioned, the share of employment in small firms is slightly lower in the region than in the country as a whole, but it varies widely between industries. Small employers in the funded sector are less common in the region than they are in the rest of the country, accounting for 12% of employment, compared to 14% in the rest of the country. However, in all three market sectors, small firms in the Atlantic provinces employ a higher proportion of the workforce than their counterparts in the rest of the country.

Turning next to the way the increase in employment during 1979-88 was distributed between industries, a different picture emerges yet again. As Table 2.12 shows, 28% of all new jobs during the decade were in trade, although only 15% of total employment was in that sector in 1987. The other major contributor was personal and business services, which accounted for 21½% of the new jobs, despite employing only 13% of the workforce in 1987. The powerhouse in this sector in Canada is business services, which was the fastest growing industry in the country for all of the 1980s. In the Atlantic provinces, however, the strength in this industry comes from personal services, as will be shown in the next chapter. The third strong industry was the primary sector, which accounted for only 2% of 1987 employment, but it created 4.6% of the new jobs during 1979-88.

Despite its important contribution to job creation, personal and business services still causes some concern because, in Canada as a whole, this industry made a proportionately bigger contribution to a significantly greater rate of employment growth than it did in Atlantic Canada. The key sub-industry is services to business, which is the strongest part of the industry in Canada, but not in the region. This industry centres around head offices and regional offices, which create a large variety of service needs.

Atlantic firms also did not do as well in manufacturing as they did in other industries, although this was consistent right across the country. In the region, manufacturing accounted for 5% of new jobs on a base of 14% of total employment.

In the funded sector, the employment gains were relatively small in a constrained public administration, but community services more than made up the difference, with a 22% share of all new jobs, on a base of 13½% of total employment.

Table 2.12²³
***Distribution of employment gains in the Atlantic region,
 by industry and size***

Amount and distribution of employment gains, by industry, and amount and distribution of employment gains in small firms, by industry. Atlantic region, 1979-88

Industry	Job gains, 1979-88	Industry share of total	Job gains in small firms	Industry share of total	Small-firm share of industry
	(000s)	%	(000s)	%	%
Primary	7.4	4.6	7.1	5.8	95.9
Mining	-0.1	-0.1	1.4	1.1	n/a
Manufacturing	8.2	5.1	11.3	9.3	137.8
Construction	4.5	2.8	6.8	5.6	151.1
Goods-producing	20.0	12.6	26.6	21.8	133.0
Wholesale	4.6	2.9	5.8	4.8	126.1
Retail	39.5	24.8	24.9	20.4	63.0
Trade	44.1	27.7	30.7	25.2	69.6
T,C & U†	-1.2	-0.8	5.9	4.8	n/a
F,I & RE†	8.0	5.0	6.7	5.5	83.8
P & B services†	34.3	21.5	30.9	25.3	90.1
Market services	41.1	25.8	43.5	35.7	105.8
Community svces.†	35.0	22.0	15.6	12.8	44.6
Public Admin.	15.3	9.6	2.0	1.6	13.1
Funded sector	50.3	31.6	17.6	14.4	35.0
Unclassified	3.8	2.4	3.4	2.8	89.5
ALL INDUSTRIES	159.3	100.0	121.9	100.0	76.5

†Notes: The abbreviations are for Transportation, Communications and Utilities (T,C & U), Finance, Insurance and Real Estate (F,I & RE) and Personal and business services (P & B services). Community services includes education and health and welfare.

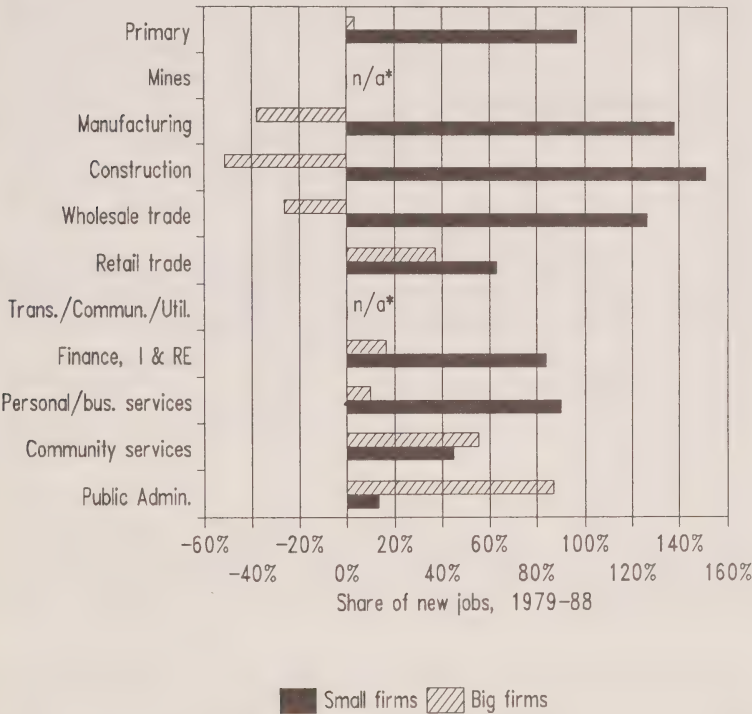
The importance of small business is abundantly clear from their share of job creation in the goods-producing sector, where they accounted for 133% of the new jobs (in other words, big firms declined by an amount equivalent to 33% of all the new

²³Source: *Employment Dynamics*

jobs created). As Chart 2.11 shows, this was particularly so in construction (where 151% of new jobs were created by small firms) and manufacturing (137%). Almost as important were primary industries, where small firms accounted for 95% of the jobs created, and personal and business services (90%).

Chart 2.11 ²⁴
Where small firms really make a difference

New jobs created within each industry by small firms and by big firms, expressed as a percentage of the new jobs created by all firms in the industry. Atlantic region, 1979-88



**Note: The percentages for these industries are meaningless because they both had extremely small net employment losses, so the shares of big and small firms are very big percentages.*

²⁴Source: *Employment Dynamics*

Comparing the Canadian and the region's distributions of job gains, market services was a bigger player in Canada, accounting for 33½% of the new jobs, compared to 26% in the region. As Table 2.13 shows, the main source of this difference was personal and business services, which accounted for 27½% of the total in Canada, compared to 21½% in the region. Trade was also relatively more important in the Atlantic region, accounting for 28% of the jobs, compared to 23% in Canada as a whole.

Small firms in Canada carried a bigger share of the job-creation load than their counterparts in the Atlantic region in the goods-producing industries and trade. In the former sector, new jobs created by small firms were more than 150% of the total new jobs; in manufacturing, small firms created two jobs for every one lost by big firms. In market services, however, small firms played a lesser role in Canada than in the Atlantic region, accounting for 91% of new jobs compared to 106% in the region. In personal and business services, small firms accounted for 81% of the industry's new jobs in Canada, compared to 90% in Atlantic Canada.

In comparing the distribution of employment gains in small firms and in all firms, there is surprisingly little difference in Canada. The major exceptions are the funded sector, naturally, manufacturing and transportation, communications and utilities. All the others are quite close.

Table 2.13²⁵
***Distribution of employment gains in Canada,
 by industry and size***

Amount and distribution of employment gains, by industry, and amount and distribution of employment gains in small firms, by industry. Canada, 1979-88

Industry	Job gains, 1979-88	Industry share of total	Job gains in small firms	Industry share of total	Small-firm share of industry
	(000s)	%	(000s)	%	%
Primary	45.8	1.7	46.2	2.1	100.9
Mining	24.1	0.9	38.7	1.7	160.6
Manufacturing	148.6	5.4	290.4	13.1	195.4
Construction	141.8	5.2	176.6	7.9	124.5
Goods-producing	360.3	13.2	551.9	24.8	153.2
Wholesale	155.2	5.7	150.2	6.8	96.8
Retail	470.7	17.2	346.8	15.6	73.7
Trade	625.9	22.8	497.0	22.4	79.4
T, C & U†	-42.0	-1.5	85.6	3.9	n/a
F, I & RE†	202.6	7.4	136.2	6.1	67.2
P & B services†	757.2	27.6	612.1	27.5	80.8
Market services	917.8	33.5	833.9	37.5	90.9
Community svcs.†	506.8	18.5	241.5	10.9	47.7
Public Admin.	240.3	8.8	19.9	0.9	8.3
Funded sector	747.1	27.3	261.4	11.8	35.0
Unclassified	88.4	3.2	79.2	3.6	89.6
ALL INDUSTRIES	2,739.5	100.0	2,223.4	100.0	81.2

†Notes: The abbreviations are for Transportation, Communications and Utilities (T, C & U), Finance, Insurance and Real Estate (F, I & RE) and Personal and business services (P & B services). Community services includes education and health and welfare.

For some of these industries, mere size explains their share of the new jobs created - the big employers can create a big share of new jobs even with a relatively slow growth rate. The future, however, belongs to the industries which are growing the fastest. As was mentioned earlier, employment grew more

²⁵Source: *Employment Dynamics*

slowly in the Atlantic provinces (23.5% during 1979-88) than in Canada as a whole (29.9%). However, big firms in the region did almost as well (8.1%) as big firms in Canada (8.5%), while small firms grew significantly slower, at 56% in the region, compared to 73% in the whole country, as Table 2.14 shows.

Table 2.14 ²⁶
The growth stakes

Percentage increase in employment during 1979-88, by industry, for small, big and all firms. Atlantic region and Canada.

Industry	Atlantic Canada			Canada		
	Small firms	Big firms	All firms	Small firms	Big firms	All firms
	%	%	%	%	%	%
Primary	88.8	8.0	67.4	60.8	-4.5	54.0
Mining	100.0	-11.2	-0.6	147.7	-9.8	13.8
Manufacturing	52.1	-3.7	7.7	61.6	-9.2	7.4
Construction	25.7	-23.7	12.4	57.8	-24.7	31.7
Goods-producing	46.2	-6.0	11.9	62.8	-10.4	13.2
Wholesale	28.4	-8.2	13.1	48.7	2.3	29.3
Retail	51.9	39.5	46.5	62.7	23.8	43.8
Trade	44.9	26.0	36.7	57.7	17.4	39.0
T,C & Ut†	54.2	-14.0	-1.9	59.6	-17.6	-4.8
F,I & RE†	84.8	5.9	26.6	81.5	14.9	33.0
P & B services†	64.4	13.0	46.2	84.3	29.1	61.8
Market services	65.1	-2.4	24.8	80.4	5.0	33.9
Community services†	86.7	31.1	43.5	110.0	25.0	39.6
Public Administration	42.6	9.7	10.8	48.3	28.3	29.3
Funded sector	77.5	16.4	22.6	100.2	26.4	35.6
ALL INDUSTRIES	56.0	8.1	23.5	72.7	8.5	29.9

†Notes: The abbreviations are for Transportation, Communications and Utilities (T,C & U), Finance, Insurance and Real Estate (F,I & RE) and Personal and business services (P & B services). Community services includes education and health and welfare.

²⁶Source: *Employment Dynamics*

The slower growth rate in small firms in the Atlantic provinces applied across almost all industries, the only exceptions being primary and finance, insurance and real estate. In two other industries, growth rates of small firms in the Atlantic region came close to matching national growth rates (manufacturing and retail trade), but in all the other industries growth rates of small firms in the Atlantic provinces were significantly lower than Canada's. In the critical industry of personal and business services, the growth rate of regional small firms was 64%, a respectable growth, but still some way behind the national 84%.

In the big firms, by contrast, the Atlantic region did better than the whole country in seven of the 11 industries. In the goods-producing industries, cutbacks in the region's big firms were gentler than in Canada's big firms in manufacturing and construction and slightly worse in mining. The farming and fishing concerns increased their employment slightly in the region, while their counterparts in the rest of the country cut theirs back. The industry where big firms expanded most was retailing, with a growth rate of almost 40% in the Atlantic provinces, compared to 24% in Canada. The exact opposite applied in public administration, where regional employment crept up less than 10%, compared to 28% nationally.

The end result of this matrix of industries and sizes is illustrated in Table 2.15, which shows the contribution to the total increase in jobs by each size category of each industry. By far the most significant contributors were firms employing fewer than 20 people in retail and in personal and business services, which accounted for 16% and 14% of total new jobs respectively. The next largest group of contributors accounted for 4%-9% each, all of them employing either fewer than 20 people or more than 500. The former group includes manufacturing, construction, finance, insurance and real estate and community services; the major contributors among big firms include retail, community services and public administration.

The categories which cut back the most were all big firms, with more than 500 employees: transportation, communications and utilities (-4.8%), manufacturing (-3.3%) and mining (-1.1%). Construction firms with more than 100 employees reduced employment by 1.4% over the decade.

Table 2.15 ²⁷**Sources of new jobs - and lost jobs - in Atlantic Canada**

Percentage share of total new jobs created during 1979-88 of each category of firm size in each industry. Atlantic region.

Industry	Firm size (by number of employees)					
	1-19	20-99	Small firms	100-500	500+	All firms
	%	%	%	%	%	%
Primary	4.4	0.1	4.5	-0.4	0.5	4.6
Mining	0.6	0.3	0.9	0.1	-1.1	-0.1
Manufacturing	6.0	1.1	7.1	1.4	-3.3	5.1
Construction	6.2	-1.9	4.3	-0.9	-0.5	2.8
Goods-producing	17.2	-0.5	16.7	0.2	-4.4	12.5
Wholesale	4.6	-1.0	3.6	-0.9	0.1	2.9
Retail	13.7	1.9	15.6	1.7	7.5	24.8
Trade	18.4	0.9	19.3	0.8	7.6	27.7
T,C & U†	2.8	0.9	3.7	0.3	-4.8	-0.7
F,I & RE†	3.4	0.8	4.2	0.9	-0.1	5.0
P & B services†	16.4	3.0	19.4	2.3	-0.1	21.5
Market services	22.6	4.7	27.3	3.5	-5.0	25.8
Community services†	7.3	2.4	9.8	5.5	6.7	22.0
Public Administration	0.6	0.6	1.3	0.3	8.0	9.6
Funded sector	8.0	3.1	11.1	5.8	14.8	31.6
ALL INDUSTRIES	68.1	8.5	76.5	10.5	13.0	100.0

†Notes: The abbreviations are for Transportation, Communications and Utilities (T,C & U), Finance, Insurance and Real Estate (F,I & RE) and Personal and business services (P & B services). Community services includes education and health and welfare.

The contributions of these categories to overall job creation was somewhat different in Canada as a whole, notably in firms with fewer than 20 employees, in which manufacturing made a bigger contribution (8.8% compared to 6.0%), and retail and primary made a smaller contribution (respectively 1.7% compared to 4.4% and 10.4% compared to 13.7%).

²⁷Source: *Employment Dynamics*

In the biggest firms, manufacturing did better in the region, laying off only 3.3% compared to 5.3% nationally. Large retail stores also expanded more in the Atlantic provinces (7.5% compared to 3.1%), but personal and business services did worse, reducing employment by 0.1% while their counterparts nationally expanded 2.5%.

CHAPTER 3

SMALL BUSINESS DYNAMICS

When job creation is analyzed on an annual basis during the period 1979-88, it quickly becomes apparent that, beneath the overall performance during the decade that was described in the last chapter, there are some wide swings and trends within trends. Chart 3.1 shows, for the Atlantic region, the annual variations in employment and real gross domestic product.

Chart 3.1 ¹
Annual growth in the Atlantic provinces

Annual growth in real Gross Domestic Product and total employment in the Atlantic provinces, 1979-88



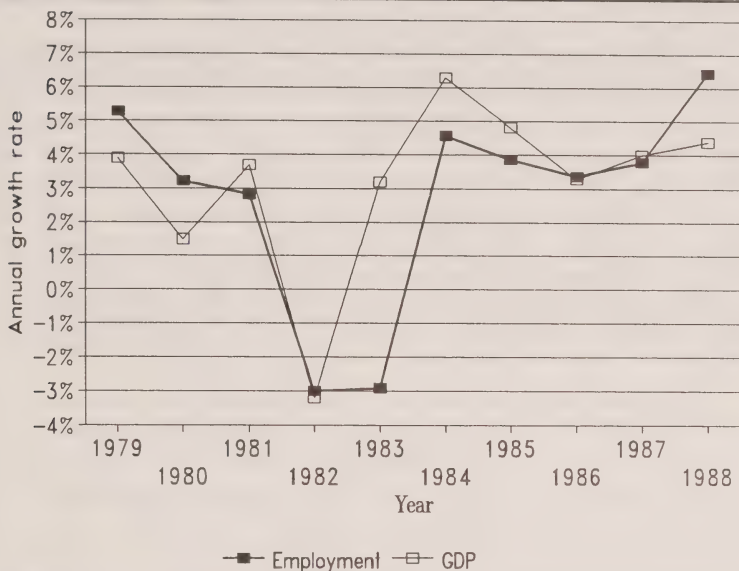
¹Source: The Conference Board of Canada and *Employment Dynamics*, published by the Small Business and Special Surveys Division of Statistics Canada.

In 1979-80, employment was increasing faster than GDP, which is a classic sign of an impending recession. The mini-recession of 1980, when GDP declined by a gentle 0.7%, set the alarm bells ringing and employment growth slowed sharply, reaching a growth rate lower than GDP growth, where it stayed until 1987. During the 1982-83 recession, the gap between employment growth and GDP growth widened, particularly in 1983, when, despite strong growth in the economy, most employers were still reacting to the events of 1982. This is, of course, the inevitable response to the excesses of the previous phase in the economic cycle. In the first three years after the recession, employment consistently grew more slowly than the economy, as employers cautiously kept their workforces lean and mean, wishing to avoid, at any cost, the bloodletting of the recession years. By 1987, employment growth had caught up with economic growth and in 1988, employers went on a hiring binge that far outpaced economic growth and signalled the inevitability of the then-incipient recession.

The pattern nationally was quite similar, as Chart 3.2 shows, but with some variations. Compared to the region, Canada did better in 1980 but much worse in 1982-83. The 1980 slowdown did not drag the economy into real decline, as it did in the Atlantic provinces, although growth did decline to 1.5%. In 1982, however, the Canadian economy sank by 3.2%, a much worse performance than the Atlantic region's 1.4% decline. In the two years that straddled the recession, the Canadian economy experienced zero growth, while the Atlantic provinces enjoyed a positive growth of 1.3%. Accordingly, the decline in employment in Canada in *each* of 1982 and 1983 was 3%, compared to 2½% in the two years *combined* in the region. The subsequent recovery in employment, however, was substantially stronger nationally than it was in the region, thanks mostly to an extraordinary boom in Ontario.

Chart 3.2²
Annual growth in Canada

Annual growth in real Gross Domestic Product and total employment in Canada, 1979-88



When the same data is analyzed for each of the provinces in the Atlantic region, the year-to-year movement is much more erratic, making it difficult to discern underlying trends. The best way to highlight these fundamental trends is to break down the decade into shorter periods of two or more years, during each of which the underlying trend is stable and the normal annual variations cancel each other out.

The psychology of employment growth depends on whether the economy is booming or busting. In boom times, employers hire on the basis of their experience in the recent past, which translates into overhiring, which, in turn, precipitates excessive corrections when the boom ends. In difficult times, this experience is remembered only too well and employment growth is

²Source: *Employment Dynamics* and the Conference Board of Canada

predicated on perceptions of likely future growth. This psychology is particularly prevalent in large organizations, which are driven by budgets. Small firms tend to be perennially cautious in their hiring policies, because they have to husband their resources more carefully and because they are forced to react to changes in the environment more rapidly.

The net result is that the excessive swings in employment that exaggerate the economic cycle are caused mainly by the large organizations. When their guesses turn out, like most forecasts, to be imperfect, they correct the situation the following year. These corrections, however, are not significant in the analysis of employment growth because they are mainly exercises in fine-tuning. The changes that hold lasting importance for an economy are the underlying trends, arising from organizations' decisions to expand or trim their workforces in line with real growth, new ventures and productivity improvements.

The best way to illuminate these underlying trends is to combine years which incorporate compensating short-term corrections of employment decisions. When these fine-tunings are smoothed out, it provides a clearer view of the underlying development of employment growth. For Canada and the Atlantic provinces, there are five distinct periods in the decade when the short-term fluctuations appear to cancel each other out, leaving a clear picture of the underlying trends - 1979-81, 1982-83, 1984-85, 1986-87 and 1988.

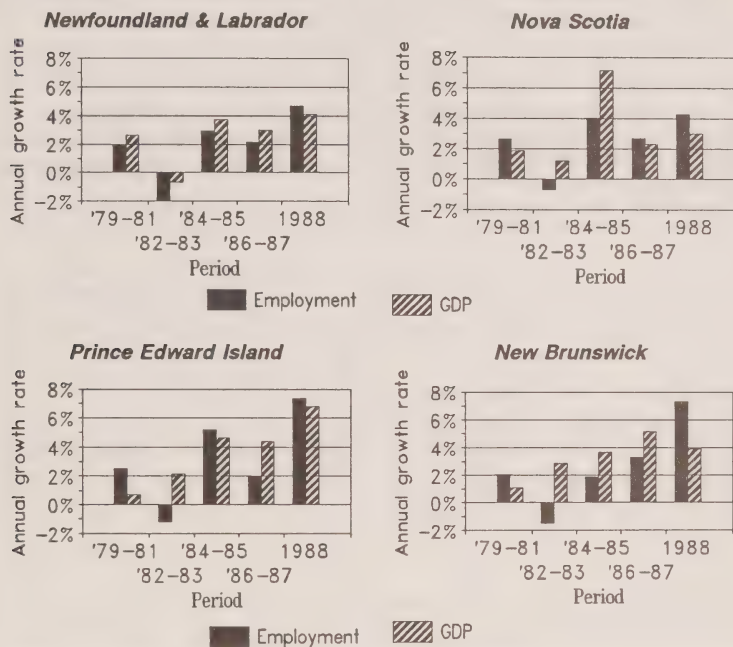
Overall, during the decade to 1988, the Atlantic region averaged annual growth of 2.9% in Gross Domestic Product and 2.1% in employment. This constitutes a significant slimming of the workforce relative to output, as only 72% of economic growth translated into employment growth. In Canada as a whole, the slimming program was less severe, with Gross Domestic Product growing an average of 3.2% and employment 2.7% (or 84% of the economic growth). Among the Atlantic provinces, average growth in the Gross Domestic Product was about 3% in P.E.I., Nova Scotia and New Brunswick, and 2.4% in Newfoundland. In all four, employment growth was slower than economic growth, varying from a high of almost 90% of the economic growth rate in P.E.I. to 80% in Nova Scotia and about 70% in New Brunswick and Newfoundland, where hiring has been particularly slow to respond to economic growth.

Returning to the analysis of underlying trends in the five principal periods during the decade to 1988, Chart 3.3 shows that even with this levelling process, the trends in each of the four provinces varied significantly.

Chart 3.3³

Annual growth for GDP and employment, by province

Annualized growth rates in the five principal periods† from 1979 to 1988 for employment and real GDP, for each of the four Atlantic provinces.



†Note: The five principal periods are 1979-81, 1982-83, 1984-85, 1986-87 and 1988. The trends in each of these periods were comparable and combining the years helps to smooth out year-to-year aberrations, thereby giving a better view of the underlying trends.

Newfoundland was the most cautious, keeping its hiring tightly in line with economic trends, even before the recession. Only in 1988, a year when employers expanded their

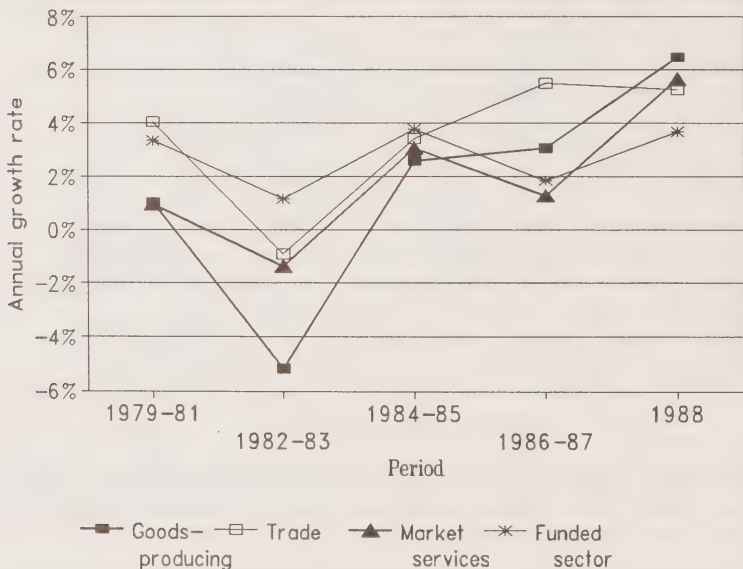
³Source: *Employment Dynamics* and the Conference Board of Canada.

workforces dramatically all across the country, did Newfoundland employers allow their employment to grow slightly faster than the economy. In New Brunswick, hiring was excessive in 1979-81, but controlled very tightly - perhaps too tightly - from the onset of the recession, until it exploded in 1988. In Nova Scotia and P.E.I., hiring was less restricted in the recession and more in balance with economic growth in the four following years, so hiring in 1988 was not quite as excessive as in the rest of the country.

The response to recessionary times varies a great deal between sectors of the economy, as Chart 3.4 shows.

Chart 3.4 ⁴
The sectors differ in both recessions and booms

Average annual growth in employment within each period†, for the four main sectors.
Atlantic Canada, 1979-88



†Note: See note to Chart 3.3

⁴Source: *Employment Dynamics*

As might be expected, the funded sector went against the trend during the recession, when it continued to increase employment, even if at a reduced rate. And in the two years immediately after the recession, the funded sector grew faster than any other sector, responding, perhaps, to the job losses of the recession. The goods-producing sector, however, reacted dramatically to the changing economic environment, slashing employment by more than 5% a year during the recession and then recovering very slowly until 1988.

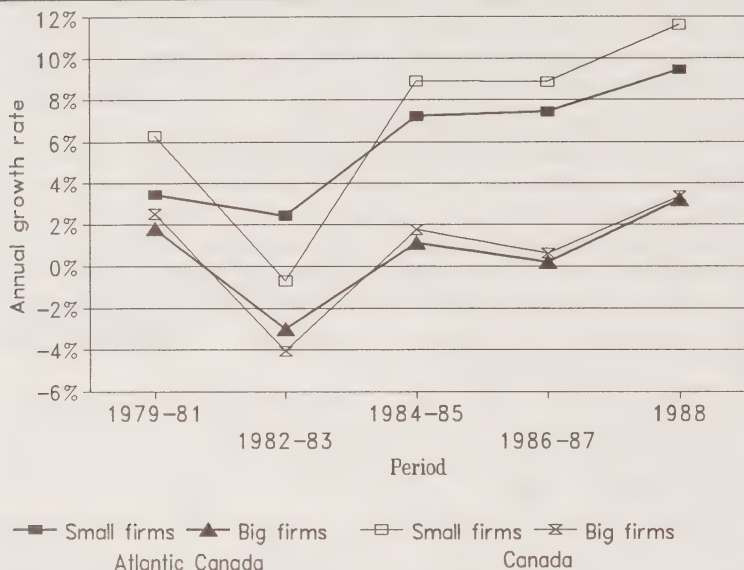
Trade and market services were somewhere in between, although, as mentioned previously, employment grew unusually quickly in the former. The trade sector was the only exception to the pattern of retrenchment during the recession, strong recovery in the two following years, then consolidation in the two years after that, before embarking on the hiring binge of 1988. Employers in the retail sector went on a hiring binge in 1986-87 and maintained it in 1988.

When growth rates are examined for big and small employers over the same periods, Chart 3.5 shows how big employers followed an almost identical pattern in the Atlantic region and nationally.

Small employers everywhere increased their employment more rapidly than their large counterparts, of course, but the pattern was a bit different in Canada and the region: small firms in the Atlantic provinces do not grow as rapidly in boom times and they cut back their employment less drastically in recessions.

Chart 3.5⁵
Small firms outgrow big firms, year after year

Average annual growth in employment within each period for small and big firms, in Canada and the Atlantic provinces, 1979-88



†Note: See note to Chart 3.3

Taken together, it is important to recognise that the share of new jobs created by small firms depends as much on growth in big firms as in small firms. When big firms are hiring aggressively, it is inevitable that the share of small firms in job creation should fall. During most of the 1980s, the big employers were in a period of severe retrenchment, so small firms carried a progressively greater share of the load of creating new jobs. In 1988, it appeared that this trend was starting to be reversed. As Table 3.1 shows, the share of new jobs created by small firms fell to 63% in 1988 from levels that averaged 95% in the previous two years.

⁵Source: *Employment Dynamics*

Table 3.1 ⁶**The annual count of new jobs for small and big firms**

Number of new jobs created each year by small, big and all firms, and the share of the total represented by small firms. Atlantic region, 1979-88

Year	Number of new jobs in firms that are:			Small-firm share of new jobs
	Small	Big	All firms	
	000s	000s	000s	%
1979	13.7	21.4	35.1	39.0
1980	5.1	0.7	5.8	87.9
1981	4.2	3.2	7.4	56.8
1982	-3.8	-10.0	-13.8	27.5
1983	15.2	-19.6	-4.4	n/a
1984	22.8	5.1	27.9	81.7
1985	12.4	5.5	17.9	69.3
1986	18.1	-5.0	13.1	138.2
1987	21.5	7.0	28.5	75.4
1988	27.3	16.1	43.4	62.9

The progression during the decade was impressive from the perspective of small firms. In the three years before the recession, they accounted for 48% of all new jobs. During the recession, they created jobs while big firms shed them in large numbers. Small firms then accounted for 77% of all new jobs in the following two years, and 95% in the two years after that. Then, in 1988, their share dropped to 63%.

There were many prepared to say that the era of the small firms had passed. Subsequent events appear to have proved that theory wrong. The reason for the low share of small firms in 1988 was, of course, the aggressive hiring of big firms that year, as Table 3.1 shows. As is now well known, this hiring binge was substantially reversed in 1989-90, when big employers shed labour as fast as they did in the 1982-83 recession. When the statistics for 1989 and 1990 are available, it will be seen that small firms have maintained their position during 1988-90 as the primary source of new jobs, in the Atlantic region and in Canada.

⁶Source: *Employment Dynamics*

Births, deaths and survivors

The emergence of small businesses as the primary source of new jobs conceals a powerful trend that reflects fundamental changes in social and economic structures. This trend is the remarkable surge in the rate of new business formations. There are numerous social and economic forces pushing it ahead, including: the downsizing of big firms; the realization that there are diseconomies of scale in managing very large organizations effectively; the growing social acceptance of self-employment; the frustration of highly trained people, particularly women, who find their professional goals do not mesh well with those of their employers; and the soaring number of business opportunities for nimble and innovative firms. These and many other trends are encouraging thousands of people to take the plunge and start a new business venture.

Of course, many new ventures are run by well-established entrepreneurs, sometimes even by big organizations. And often the new ventures are not even statistically observable, because they are part of larger organizations that are building new products and services on the basis of their existing businesses. But, in a world where the rate of change is accelerating, it takes much more than this to meet the torrent of opportunities that big employers are often too slow to grasp. So there has been a strong and steady increase in the number of people who are self-employed, admittedly not always by choice. And there has been an even stronger wave of new business formations, many of which are growth-oriented.

It is these young firms rather than small firms generally that dominated the process of job creation in the 1980s. This fact carries an important corollary. Young firms are vulnerable and rarely survive very long. In fact, the average life of a firm in the Atlantic provinces is only 6¾ years. This does not mean that the jobs they create are transitory, however, because the discontinued business often resurfaces under a new name or new management - or the entrepreneur may start another business. An individual enterprise may fail, but any good idea or business will survive and prosper. This is especially true in industries that are growing and evolving rapidly - specifically, the ones with promising futures. A high failure rate means that

new ideas are bubbling to the surface and many are bursting when they reach the air.

It is also important to distinguish between the business owner and the business. Stable businesses are the product of experienced entrepreneurs. Unfortunately, most entrepreneurs gain this experience through the school of hard knocks, so many succeed only at their third or fourth attempt. This might seem like an inordinately expensive form of training for an economy to undertake, but the social cost of these "failed" attempts is not as high as many would assume. Many of the ventures that do not succeed are not "failures", even though we shall call them this in this report. Bankruptcies and receiverships represent only a tenth of the businesses that cease operations. The failure statistics in this report deal with businesses that cease to exist, but this can be for many different reasons.

A recent survey⁷ found that 10.6% of businesses that ceased operations in Atlantic Canada in 1987 resulted from bankruptcy or receivership; 43.5% were voluntarily closed or suspended by the owner, usually because competition was too tight or the profit margin was too small; another 35.1% were sold as going concerns or folded into another business. Other reasons include retirement, finding a better opportunity, and boredom, to mention just a few of the reasons given.

The high failure rate that accompanies the early existence of all new ventures is therefore not an unhealthy sign. It means that entrepreneurs are experimenting, trying new things, most of which don't work out. There are significant costs involved in bankruptcies, it is true, but these are best viewed as part of the cost of doing business. The benefit of every failure is an entrepreneur who is a little wiser, along with his or her banker, supplier and customer. Abandoned businesses are the fertilizers of successful businesses.

In the Atlantic provinces, during the period from 1979 to 1988, new business ventures amounted to an average of 20% of the total number of existing businesses *every year*. Of course, a large share of those gains was lost through businesses that

⁷Source: *Survey of Business Terminations*, prepared by the Small Business and Special Surveys Division of Statistics Canada for the Atlantic Canada Opportunities Agency, 1990

ceased to exist; they clawed back the equivalent of slightly more than three quarters of the new ventures.

These rates are, of course, averages based on the experience during the 1980s. There are significant variations from year to year that reflect the economic climate. In order to understand these annual variations better, a model was constructed to obtain the expected number of annual failures and startups regardless of economic cycles. The model uses the number and ages of the existing businesses each calendar year and the 1978-86 average startup rate and average failure rate at each age. The expected startups and failures are therefore averaged over a full economic cycle. Chart 3.6 compares expected failures with actual failures, revealing two notable phenomena:

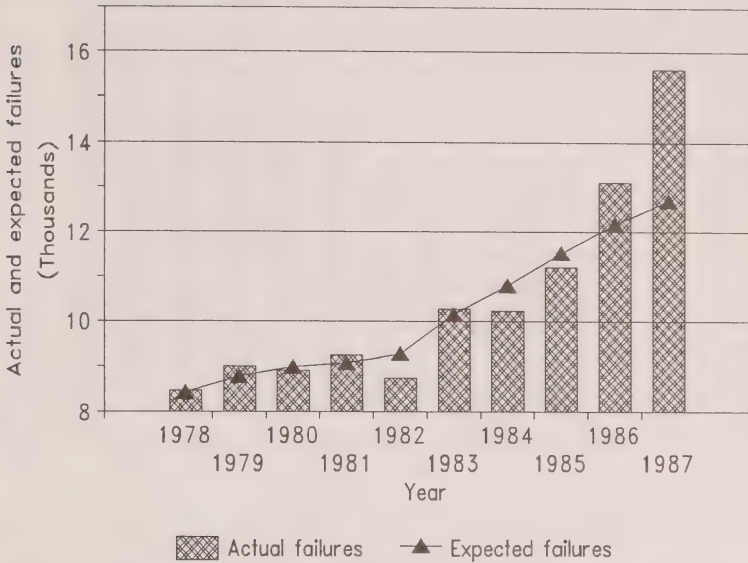
- The number of failures in 1982, the worst year of the 1981-82 recession, was significantly *below* the expected number. In fact there were fewer failures in 1982 than in 1981. This is not a reflection of startups in previous years, because the expected failures are adjusted to account for that. Also, bankruptcies rose significantly in the 1982 recession. However, as bankruptcies are only about a tenth of total "failures", it must be surmised that there was a dramatic reduction in 1982 in the occurrence of business cessations for other reasons, including simply folding the business, or selling it. In recessionary times, owners of small businesses batten down the hatches and activity slows in every area of business. These owners may, in fact, be less likely to dispose of their firms during recessions because their value is lower or they want to wait for better times to pay off debts.

- The number of failures in 1987 exceeded the expected failures by a very wide margin. This jump in failure rates was consistent across all ages of businesses and was almost identical to the 1987 surge in failure rates in Ontario. The jump is so extreme that it looks like an aberration; it is doubtful it should be included in the analysis, so most of the analysis in this section was done on the basis of the experience during 1978-86. It is not possible to speculate why this happened. Data for 1988 (which will appear in next year's report) and 1989 may throw some light on it.

Chart 3.6⁸

The impact of the economic climate on failures

Actual and expected failures, 1978-87, Atlantic region.



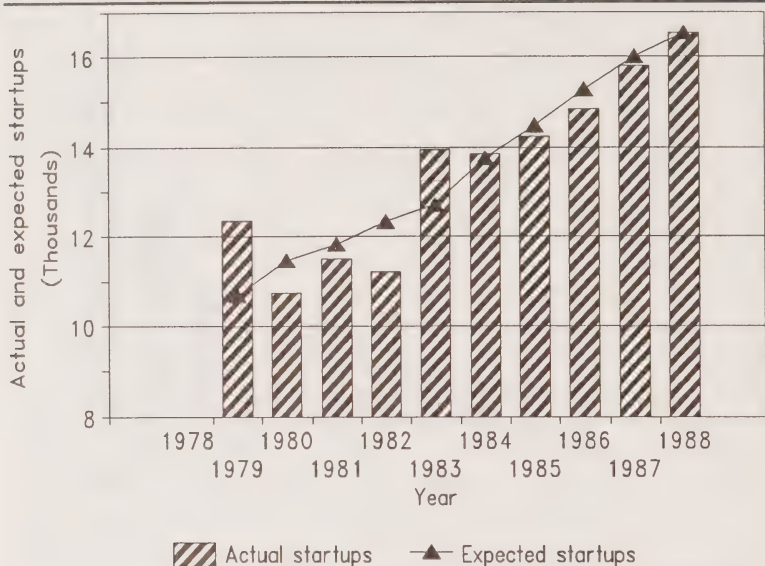
Notes: Expected failures are based on the average failure rate during 1978-86 according to how many years have passed since startup, and the age mix of existing businesses each year.

Turning to startups, Chart 3.7 shows how actual startups compare with expected startups. As might have been expected, startups dropped significantly in 1982. For most people, but not all, a recession is not the preferred time to start a new business. However, there was a compensating surge of startups the following year, so that, in the two years combined, total startups were not too different from the expected startups. After 1983, startups progressed at the expected rate, or slightly below, through to 1988.

⁸Source: Small Business and Special Surveys, Statistics Canada, which performed a special analysis of firms exiting, by year of startup and exit, based on *Employment Dynamics*. The statistics are more refined than *Employment Dynamics*, because they remove some double counting of firms that did not report for one or more years. Absolute numbers do not therefore always agree with those in the *Employment Dynamics*.

Chart 3.7⁹**The impact of the economic climate on startups**

Actual and expected startups, 1979-88. Atlantic region.



It can be questioned if the rate of new business ventures will continue indefinitely at the current high levels. Startups are driven by a combination of existing entrepreneurs starting new ventures and people switching into self-employment from employment. The latter has been a major source of new ventures in the 1980s, but there will presumably come a time when most of the people who are likely to switch will have switched and the influx into self-employment of people with entrepreneurial potential will level off or decline. This will likely depress the rate of startups. In Ontario, for example, some indicators suggest that the startup rate slowed down in 1988 and then declined after that, although the reason for this has not been firmly established yet. In the Atlantic region, the percentage of the workforce that is self-employed has declined

⁹Source: Special analysis of *Employment Dynamics*

in the past year or two, as it has in Ontario, but the region's startup rate did not slow down in 1988 like Ontario's, so it is not clear at this point to what extent the region will follow Ontario's trend.

A different kind of indicator emerges from a recent survey¹⁰ of startups in the Atlantic provinces, which found that 70% of the entrepreneurs starting new businesses were in business for themselves for the first time. A comparable study¹¹ for Canada in 1988 found that only 58% of startups were first-time entrepreneurs, so it is reasonable to conclude that the Atlantic provinces have been slower in attracting potential entrepreneurs than the rest of Canada.

It is unlikely this ratio of first-time entrepreneurs will remain so high for long. However, almost 20% of the first-time entrepreneurs whose businesses did not survive started another business after their first one failed, according to the survey¹² of business terminations mentioned previously. Almost half abandoned self-employment, for a while at least, but many of them will try again, if the Atlantic experience follows that of other jurisdictions. Without any hard evidence, the best guess is that new business formations may continue at current high levels in the Atlantic region until the entrepreneurs start to mature and build fewer, stronger businesses.

The net result of these large numbers of startups and failures is that the total number of businesses in Atlantic Canada increased at an average annual rate of 4.5% between 1978 and 1988, as Table 3.2 shows. The net gain in 1988 was significantly lower than previous years because of the extraordinary jump in failures that year, as mentioned previously. Startups averaged 20% of the existing businesses each year and failures averaged almost 15½%. If the final year of the period is excluded, the average failure rate would have been 14.9% instead of 15.4%.

¹⁰Source: *Survey of Business Startups*, prepared by Statistics Canada for the Atlantic Canada Opportunities Agency, 1990

¹¹Source: *Study of Business Start-Ups in Canada*, Decision Marketing Research Ltd., 1988

¹²Source: *Survey of Business Terminations*

Table 3.2 ¹³
The ebb and flow of businesses

Startups, business cessations and the total number of firms in existence each year, and the resulting net gain from startups and cessations. 1979-88, Atlantic region.

Year	Total number of firms the year before	Startups	Firms that went out of business†	Net gain	
	#	#	#	#	%
1979	53,763	12,358	8,455	3,903	7.3
1980	57,666	10,756	9,003	1,753	3.0
1981	59,419	11,488	8,912	2,576	4.3
1982	61,995	11,218	9,241	1,977	3.2
1983	63,972	13,958	8,735	5,223	8.2
1984	69,195	13,855	10,251	3,604	5.2
1985	72,799	14,229	10,229	4,000	5.5
1986	76,799	14,843	11,189	3,654	4.8
1987	80,453	15,793	13,092	2,701	3.4
1988	83,154	16,526	15,612	914	1.1
Average	67,922	13,502	10,472	3,030	4.5
	100%	19.9%	15.4%	4.5%	

†Notes: The business cessations did not operate in the year shown but had been operating in the previous year.

Startup rates and failure rates vary quite widely between the four provinces in the region, as Table 3.3 shows. By far the highest startup rate is 24%, in Newfoundland, which also has the highest failure rate, at 18¼%. The other three provinces are bunched close together, with startup rates varying from 18.4% to 19.4% and failure rates from 14.3% to 15%.

In Ontario, the startup rate is lower than in the Atlantic, averaging about 15¾% of the existing businesses, and the failure rate is, proportionately, slightly less than 12%. The net gain in Ontario was only slightly lower in the 1980s, at 3.8% a year, than the Atlantic region's 4.5%.

¹³Source: Special analysis of *Employment Dynamics*

Table 3.3 ¹⁴
The life expectancy of young firms

Startup and death rates and the average annual net gain of small businesses, by province, 1979-86. Also, the percentage of total deaths that are in their first year of operation and the life expectancy of startup firms. Atlantic region and Ontario.

Province	Startup rate	Failure rate	Net gain	1st-year deaths as a % of total deaths	Life† expectancy at startup
	%	%	%	%	years
Newfoundland	24.0	18.3	5.7	48.1	6.19
PEI	19.4	14.4	5.0	48.4	7.49
Nova Scotia	18.4	14.3	4.1	42.3	7.03
New Brunswick	18.9	15.0	3.9	44.1	6.75
Atlantic region	19.9	15.4	4.5	44.8	6.77
Ontario	15.7	11.9	3.8	30.4	8.14

†Notes: The life expectancy is the average life of new firms, based on the average failure rates of firms in the Atlantic region between 1979 and 1986, with rates for firms more than 9 years old projected at 9% a year.

The most likely explanation for the lower rates in Ontario is that it has the most mature provincial economy in Canada, with the best developed infrastructure to support small and growing firms. Much of this infrastructure is informal, between entrepreneurs who can help each other. But it also includes financial institutions, governments, suppliers and business customers. Until an adequate infrastructure for small businesses is formed in other provinces, their new firms will continue to be more vulnerable and therefore more likely to fail.

In fact the higher failure rate in the Atlantic provinces is almost entirely attributable to the experience in the first two years of life in new businesses. About 45% of all firms that go out of business in the Atlantic provinces are in their first year of operation. In Ontario, the comparable share is about 30%. Chart 3.8 shows how failure rates in the Atlantic region are almost identical with those in Ontario in the third and subsequent years of a firm's life. But they are much higher in the

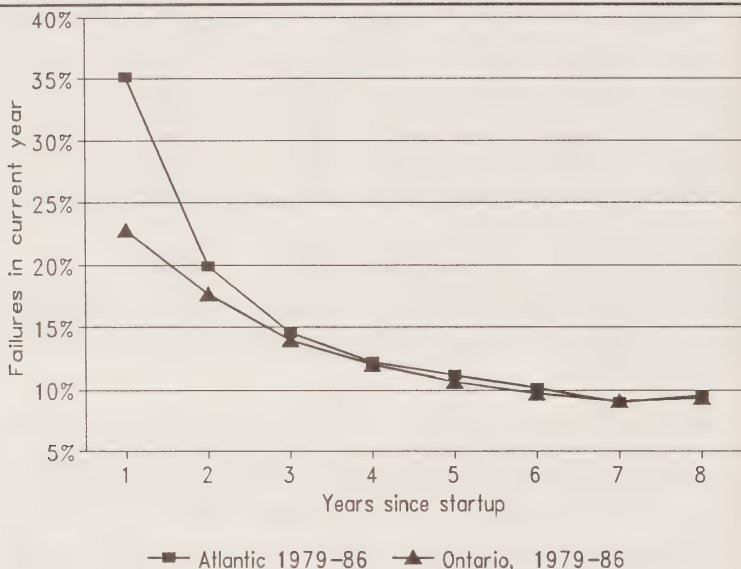
¹⁴Source: Special run of *Employment Dynamics*

first year (35% compared to 23% in Ontario) and the second year (20% compared to 17¼% in Ontario).

Chart 3.8 ¹⁵

Young firms are more vulnerable in the Atlantic region

Percentage of existing firms that fail each year, measured by number of years since startup. Atlantic region and Ontario, average for 1979-86



Because of these high failure rates in the first few years of a firm's life, only 43% of new ventures in any year survive their first three years and slightly less than a third make it through their fifth. In Newfoundland, which has the highest failure rates, only 39% survive to the end of their third year and 29% last five years. In Ontario, the experience is a bit better, but still daunting - 53.5% survive the first three years and 41.5% make it to the end of their fifth year.

When startup and failure rates are analyzed for each industry, Table 3.4 shows that startups are heavily concentrated

¹⁵Source: Special analysis of *Employment Dynamics*

in one industry, namely personal and business services. The average startup rate during the decade was 25.6% in this industry, compared to an average of 20% in all industries. The next highest rate in an industry with a significant number of firms (mining has too few firms for its startup rate to be significant) was in construction, which had a startup rate of 18%.

Table 3.4 ¹⁶
Where the action is

Startups between 1979 and 1988 and failures between 1978 and 1987 and the corresponding startup and failure rates, by industry. Atlantic region.

Industry	Startups	Failures	Startup rate	Failure rate
	#	#	%	%
P & B Servicest	41,102	31,039	25.6	19.4
Mining	528	496	19.2	18.0
Construction	14,257	12,104	18.0	15.3
Primary	12,214	7,945	17.8	11.6
T, C & Ut	5,517	4,399	17.4	13.8
Retail	18,982	16,137	16.1	13.7
Manufacturing	6,106	5,085	14.6	12.2
F, I & RE†	4,092	3,217	14.5	11.4
Wholesale	5,673	4,731	14.0	11.7
Community servicest	6,427	4,404	10.9	7.5
Public Administration	508	422	7.9	6.6
Unclassified	19,618	14,740	48.0	36.1
TOTAL	135,024	104,719	19.9	15.4

†Notes: The abbreviations are for Personal & Business Services (P & B Services), Transportation, Communications & Utilities (T, C & U), Finance, Insurance & Real Estate (F, I & RE). Community Services includes education and health and welfare.

When personal and business services is examined in its component parts, it emerges that one industry is almost solely responsible for the rapid growth in business starts, namely personal services. This sub-industry has a startup rate of 38.5% and a failure rate of 27.5%, giving it an unusually large net gain over the decade. Personal services accounted for almost 21,000

¹⁶Source: Special analysis of *Employment Dynamics*

startups during the decade (or 15% of the total for all industries) and almost 15,000 failures (or 14.2% of the total for all industries). The other sub-industries in personal and business services (business services, amusement and recreation, accommodation and food and miscellaneous services) all had startup and failure rates that were close to the average for the region as a whole.

Looking at all industries, Table 3.4 confirms the overall observation that failure rates are closely correlated with the startup rates; the only exception is the primary industries where failure rates are much lower than elsewhere, compared to the startup rate.

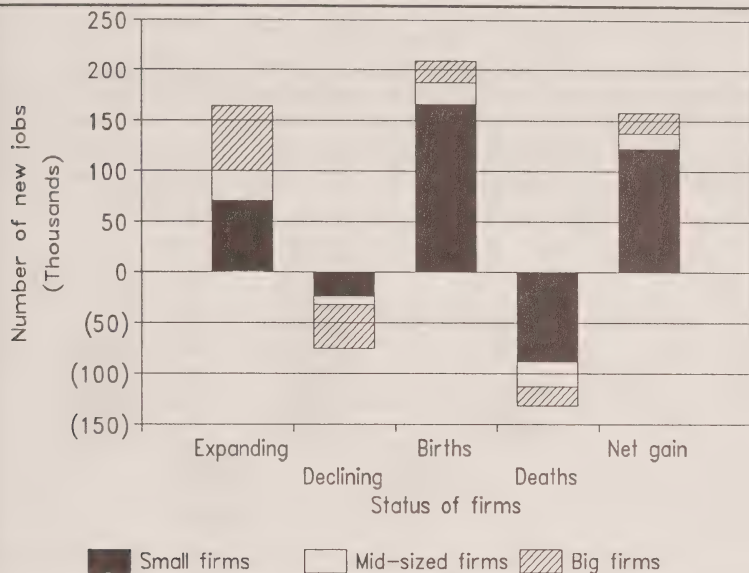
All of the discussion in this section has focused on the number of businesses entering and exiting the economy. The impact of all this activity on employment is, of course, immense. New business formations created 210,000 new jobs during 1979-88, significantly more than the 165,000 created by expansions of firms that existed in 1978, as Chart 3.9 shows. These births represent 131% of the total net new jobs created during the decade; in other words, employment in 1988 in the firms that didn't exist in 1978 was 131% of the total increase in employment during the period. Without the births, employment would have declined by 7% instead of increasing by 23.5%.

Of course, "deaths" took away most of these gains from births because of the high failure rate of new firms in their first three years. Jobs lost from deaths amounted to 135,000, leaving a net contribution of 75,000 to new jobs by births and deaths. The net contribution from expansions and contractions of firms that existed in 1978 was slightly higher, at 85,000, but the components were somewhat less - 165,000 jobs gained from expansions and 80,000 lost from cutbacks.

Births involve small firms to a large degree (as do deaths), so jobs created by births are almost entirely in small firms. This is the foundation of their overall predominance in job creation. Big firms make their important contribution in expansions - although their contractions are also significant. Either way, it is remarkable how much activity surrounds relatively small net changes in employment. This dynamism of the small-business sector makes it difficult to follow or even understand for those who are not themselves involved in small firms.

Chart 3.9 ¹⁷
Births, deaths, expansions and contractions

Jobs created by firms formed during 1978-88 and by expansion of firms existing in 1978; jobs lost from contractions or cessation of firms existing in 1978. Atlantic region, 1978-88.



The picture changes dramatically if the funded sector is excluded, as Chart 3.10 shows. In the market sector, new jobs created from births accounted for 176% of the total jobs created between 1979 and 1988, compared to 131% in the economy as a whole. Small firms formed after 1978 alone accounted for 139% of total new jobs in the market sector. Among the firms that existed throughout the period under examination, expansions made comparable contributions to new jobs in both the funded and market sectors, but job losses from declining firms were much higher proportionately in the market sector's contractions. Job losses from contractions were the equivalent of 66% of the total jobs created in the market

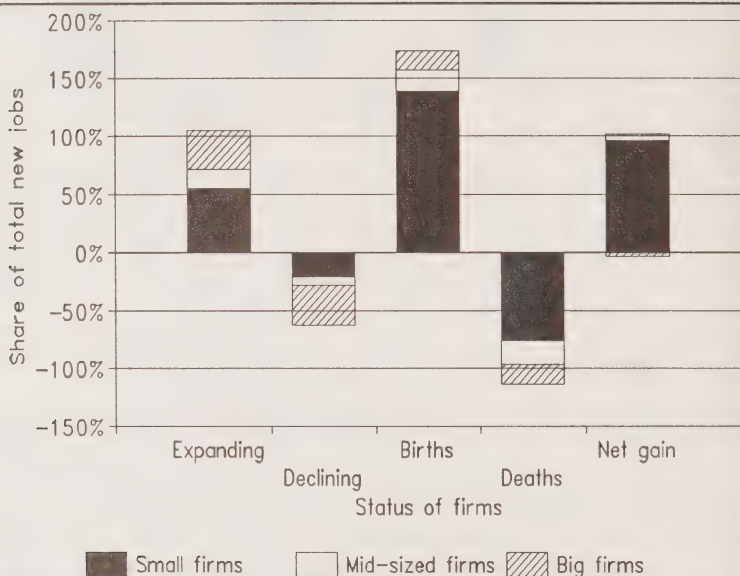
¹⁷Source: *Employment Dynamics*

sector, compared to 14% in the funded sector and 50% in the whole economy. The net contribution of expansions net of contractions to new jobs in the market sector was therefore only 40%, compared to 53% in the combined market and funded sectors.

Chart 3.10¹⁸

Births dominate job creation in the market sector

Share of total jobs created by firms formed during 1978-88 and by the expansion of firms existing in 1978; jobs lost from contractions of firms existing in 1978 or from cessations of firms, expressed as a percentage of total jobs created. Atlantic region.



This means births played a much more important role in the market sector, where births net of deaths contributed 60% of the new jobs, compared to 47% overall. This reliance on births is considerably greater in the Atlantic region than it is in Ontario, where births accounted for 107% of the total new jobs in the market sector and births net of deaths contributed just

¹⁸Source: *Employment Dynamics*

less than half (48%) of the total new jobs. Births net of deaths in the whole economy contributed 39% of total new jobs in Ontario.

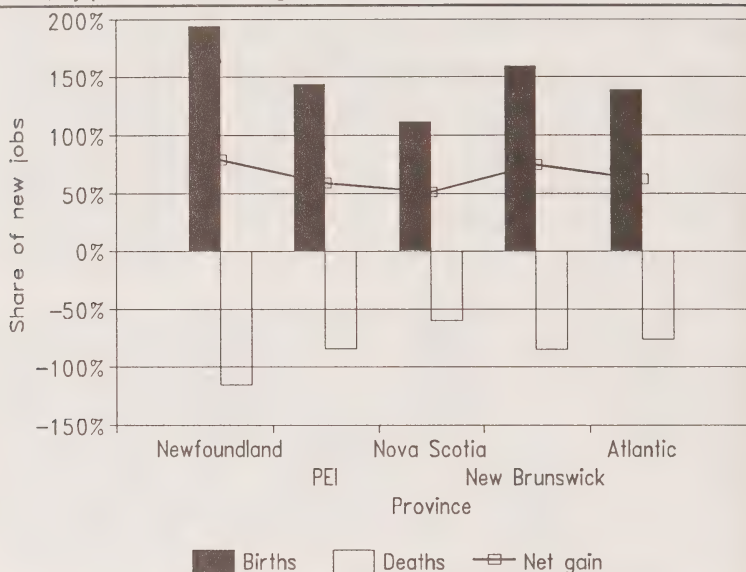
Small firms, of course, play a more significant role in the market sector than in the whole economy. They accounted for more than 100% of the net jobs created by births and deaths, as might have been expected, given that births are far less common in larger firms. However, they also played the major role in expansions; small firms accounted for 83% of the net gain in jobs from expansions and contractions in the market sector. In the economy as a whole, small firms were responsible for 53% of the net employment growth from expansions net of contractions; and in the funded sector, they accounted for 20% of the net growth.

The role that births and deaths play in job creation varies somewhat between the four provinces in the Atlantic region. As Chart 3.11 shows, in the market sector, Newfoundland relies most heavily on births for its new jobs, which contributed 194% of the total new jobs during the decade to 1988, compared to 160% in New Brunswick, 143% in P.E.I. and 111% in Nova Scotia. Newfoundland also had the highest net gain from births and deaths, at 79%, compared to 74% in New Brunswick, 59% in P.E.I. and 51% in Nova Scotia.

Chart 3.11 ¹⁹

Births are big in Newfoundland's market sector

Share of total new jobs in the market sector from births and equivalent jobs lost from deaths, by province. Atlantic region, 1978-88



A profile of the self-employed

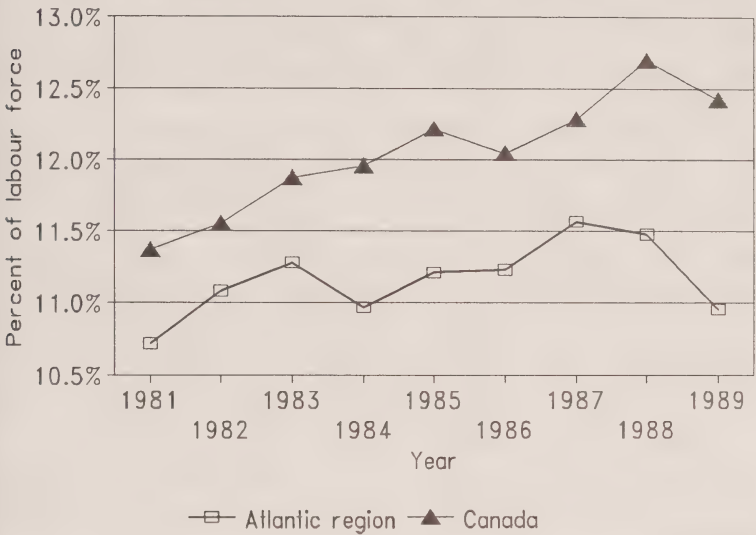
Self-employed people represent a smaller proportion of the labour force in the region than in Canada. Surprisingly to some, the gap was much smaller at the beginning of the 1980s, as Chart 3.12 shows. This was mainly because of the region's traditional concentration of self-employed people in the fisheries, which is more of a lifestyle occupation than a business. This is reflected in the percentage of self-employed people who have incorporated their businesses. Once a business is incorporated, it is usually run on a more businesslike basis and is usually positioned to grow; in the long run, the really

¹⁹Source: *Employment Dynamics*

significant employment growth comes from incorporated businesses. In 1981, almost 80% of the self-employed had unincorporated businesses, compared to less than 70% nationally.

Chart 3.12²⁰
The growth in self-employment

Percentage of the labour force that was self-employed in Atlantic Canada and Canada (incorporated and unincorporated), 1981-89.



In the course of the 1980s, the make-up of the region's self-employment changed dramatically. By 1989, only 73% of the self-employed had unincorporated businesses, compared to 66% in the country as a whole. Their number peaked in 1987 at 8.8% of the labour force, then declined precipitously to 8.0% in 1989. The absolute number declined from 87,000 to 83,000, reflecting the thinning out of the fisheries. The net effect has

²⁰Source: *A Profile of the Labour Force in Atlantic Canada*, based on Labour Force Annual Averages and The Labour Force, Statistics Canada, 1989

been to change the composition of the self-employed in the region to a mix that is closer to the Canadian average. In fact, the number of incorporated businesses grew at an average of 5.6% a year during the 1980s, compared to 4.0% nationally. This indicates that, although the self-employed in the region were barely growing as a percentage of the labour force, they were maturing into a group more likely to build businesses.

This measurement of the self-employed includes all those for whom self-employment is their principal source of income. The idea of self-employment is wider than this, however, and can include those who are dabbling, those who are starting small and hoping to grow and those who slip in and out of employment, to mention just a few of the permutations of self-employment.

In 1988, almost 165,000 people in the Atlantic provinces reported income from self-employment. This represents about 18% of the people employed in the region. For many of them, of course, their business was something they did "on the side", while they held down a full-time job. Others were turning a hobby into something that could generate some cash, although they didn't depend on that cash to live. About 90% earned more than \$25,000 a year, with almost one third of their total earnings being net income from self-employment, so they can be assumed to be serious about their self-employment.

However, this understates the level of entrepreneurship in the region, because it omits people who have incorporated their companies. They don't declare their income as self-employment income on their tax returns (from which this data is drawn), because they are employees of their own companies. These entrepreneurs would add about 3% to the total, so it's fair to say that more than 20% of the people in the workforce in the Atlantic provinces are self-employed to some extent.

One component of these numbers that needs to be interpreted carefully is that less than one third of the total income earned by these self-employed people came from their self-employment activities. The rest came from employment (about 60%) and "other" (40%). Employment earnings therefore represent about 42% of the total income of people who are self-employed. This is partly because a significant proportion of the self-employed are running businesses on the side which give them a very small share of their overall income.

Even then, however, the proportion of income derived from self-employment is probably understated, because self-employed people often have more than one business and they might be drawing a salary from one and self-employed income from another. Also the balance of income not deemed to be from self-employment almost certainly includes dividends or other forms of payment from their own businesses. It is probably safe to say that these statistics understate the share of income from self-employment, although they do not understate the total income.

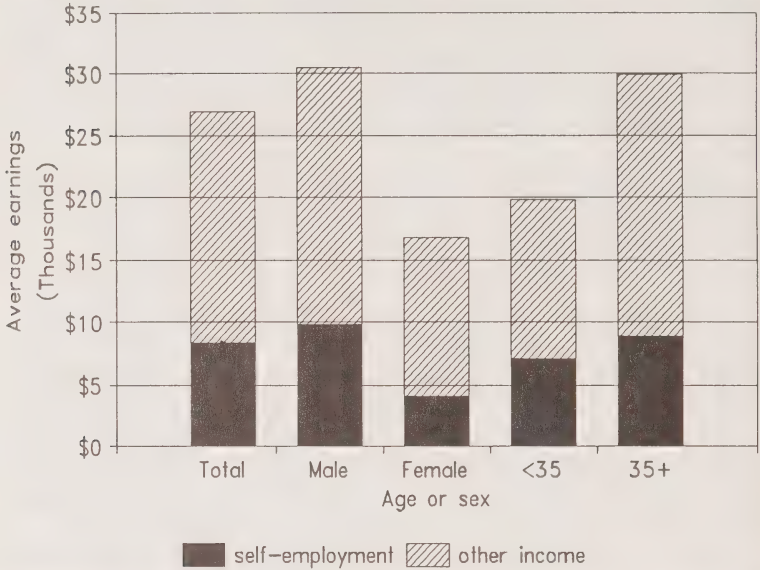
About 70% of the self-employed people in the Atlantic region are aged more than 35. Three-quarters are men, which is in line with the national situation. The dominant group among the self-employed is men aged 35 and over, who constitute about half the total. These men earn the highest average income of any group - about \$34,000 in 1988. The lowest was earned by females aged less than 35, whose income averaged about \$13,700 in 1988. On average, self-employed people earned net income of \$27,000, including \$8,400 from self-employment. If we exclude people whose primary source of self-employed income is rental properties, the average income is \$26,000, of which self-employed income is \$9,150 (35%).

Chart 3.13 shows average earnings for males and females and for people aged less than 35 and 35 and over.

Chart 3.13²¹

The self-employed draw income from many sources

Average earnings of self-employed people, from self-employment and other sources, for males and females and for people under 35 or 35 and over. Atlantic region, 1988



It is interesting to note that the females earned less than 25% of their total income from self-employment, while almost a third of the men's income came from self-employment. This appears to support findings elsewhere that show women build their businesses more slowly, living on much lower incomes than men do. The young, by contrast, relied most heavily on self-employment income, to the tune of 36%.

Part of the reason for these variations lies in the careers of the self-employed. As Table 3.5 shows, more than half the income earned by women was from businesses, a much higher proportion than for the males, who have a stronger representation in fishing. The most important source of self-employed

²¹Source: *Demographic Profile of Self-employment, Atlantic Canada, 1987*, prepared by the Small Business and Special Surveys Division of Statistics Canada.

earnings for young people was fishing, at 41%, a sharp decline from the previous year, when it was 50%. The over-35s, on the other hand, were most strongly represented in professional careers, which accounted for 43% of self-employed earnings, compared to 24% for the under 35s. Professional income is high and stable; income from business and fishing is volatile.

Table 3.5 ²²
Where the self-employed earn their income

Distribution of total self-employed income between the six highest sources of income, by gender and by age. Atlantic region, 1988

Type of self-employed income	Share of each type of income in self-employed earnings of:				
	Males	Females	All self-employed	Under 35	35 and over
	%	%	%	%	%
Business	29.2	52.8	32.1	30.0	32.8
Professional	38.8	33.2	38.2	24.2	43.2
Commission	3.3	3.3	3.3	3.0	3.4
Farm	4.2	3.0	4.1	3.4	4.3
Fishing	27.2	12.5	25.4	41.2	19.7
Rental	-2.7	-4.8	-3.1	-1.8	-3.4
TOTAL	100.0	100.0	100.0	100.0	100.0

When the distribution of the self-employed by their income ranges is examined, it becomes clearer how many of them focus their efforts primarily on their own business. As Table 3.6 shows, there are many more of them with net incomes less than \$10,000 than with net incomes of \$10,000-\$25,000, particularly among men and people over 35. In fact, three quarters of the people with self-employed income of less than \$10,000 have negative earnings from self-employment, indicating they are fully employed and running a business on the side. To grow a business to the point where it earns more than \$10,000 takes up a lot of every working day, however, so many of them cannot progress that far. The ones who do develop their businesses quickly acquire a strong motivation to raise their earnings to a

²²Source: *Demographic Profile of Self-employment*

livable wage, in order to compensate for the hours they are putting in. It is therefore likely that the people earning \$10,000-\$25,000 are fewer in number because they are mainly in transition; they either graduate up or give up.

Table 3.6 ²³
Where the higher incomes are

Number of self-employed people, by age and by sex, whose gross earnings from self-employment fall within the ranges shown. Also, each category as a percent of the total. Atlantic region, 1988.

Age or sex	Range of gross self-employed income			
	Less than \$10,000†	\$10,000 - \$24,999	\$25,000 or more	Total
<i>Numbers of self-employed</i>				
Males	8,220	2,784	110,963	121,967
Females	3,555	1,411	37,581	42,547
Under 35	3,465	1,597	44,402	49,464
35 and over	8,310	2,598	104,142	115,050
All	11,775	4,195	148,544	164,514
<i>Percent distribution</i>				
Males	5.0%	1.7%	67.4%	74.1%
Females	2.2%	0.9%	22.8%	25.9%
Under 35	2.1%	1.0%	27.0%	30.1%
35 and over	5.1%	1.6%	63.3%	69.9%
All	7.2%	2.5%	90.3%	100.0%

†Notes: The category for income less than \$10,000 includes those with negative earnings.

Turning, finally, to the average net income earned by the self-employed, Table 3.7 supports the observation that most of the people with very low income from self-employment are gainfully employed elsewhere. Men who declared self-employment income of less than \$10,000 had an average income from other sources of \$19,816 (and an average loss from self-employment \$2,093), while those in the next category up (\$10,000 to \$25,000) earned an average of \$10,808 from other sources (while their average self-employed income was \$10,120).

²³Source: *Demographic Profile of Self-employment*

Table 3.7 ²⁴
What the self-employed earn

Average net income of the self-employed, by age and by sex, whose gross earnings from self-employment fall within the ranges shown. Also, each category expressed as a percent of the average for all self-employed people. Atlantic region, 1988.

Age or sex	Range of gross self-employed income			
	Less than \$10,000†	\$10,000 - \$24,999	\$25,000 or more	Total
<i>Average net earnings</i>				
Males	\$17,490	\$20,694	\$31,738	\$30,526
Females	\$13,478	\$15,453	\$17,262	\$16,886
Under 35	\$12,815	\$15,684	\$20,656	\$19,946
35 and over	\$17,723	\$20,928	\$31,240	\$30,030
All	\$16,279	\$18,931	\$28,076	\$26,998
<i>Percent of average for all self-employed</i>				
Males	64.8%	76.7%	117.6%	113.1%
Females	49.9%	57.2%	63.9%	62.5%
Under 35	47.5%	58.1%	76.5%	73.9%
35 and over	65.6%	77.5%	115.7%	111.2%
All	60.3%	70.1%	104.0%	100.0%

†Notes: The category for income less than \$10,000 includes those with negative earnings.

It is also notable that, for women and younger people who had gross income from self-employment of more than \$25,000, the average total net income was well below \$25,000 - at \$17,262 and \$19,946 respectively. Men and people aged over 35, on the other hand had much higher average incomes of about \$30,000.

²⁴Source: *Demographic Profile of Self-employment*

CHAPTER 4

WHO, WHY AND HOW

Entrepreneurs are not easy to pin down. Their complex individuality precludes easy generalizations about their personalities or their behaviour or about who will or won't become an entrepreneur; their sheer numbers and diversity defy simple conclusions about the skills and characteristics that make the difference between success and failure. There is, however, a growing body of research all over the world that paints a believable picture of who these people are, why they put themselves in situations most people do their best to avoid and how they go about their business.

In Atlantic Canada, two recent surveys have examined business startups¹ and small-business terminations² in an attempt to understand the region's entrepreneurs. These findings provide many insights, which illuminate the life cycle of entrepreneurial firms and highlight just how much the region's entrepreneurs have changed, even over the past seven years. The new breed of entrepreneurs that is emerging in the region is older, better educated and a more ambitious group of men and women than their predecessors.

The survey on startups questioned a random sample of business owners and asked them to describe their experiences and how they felt at the time they started their firms; they were also asked to comment, with the benefit of hindsight, what would have made it easier for them to cope at the time. More than 60% of the firms in the sample were started before 1984, which represents a slightly older group of companies than the average for all firms in the region. At current rates of business formation and termination, the proportion that has been in

¹A *Survey of Startups in Atlantic Canada*, based on a sample of 822 owners, was undertaken by the Special Surveys Division of Statistics Canada on behalf of the Atlantic Canada Opportunities Agency. Conducted in the fall of 1989.

²A *Survey of Business Terminations*, conducted by Statistics Canada on the basis of a 2% sample of taxfilers, both T1 and T2, who filed in 1987 but not 1988. Of the 781 entrepreneurs and self-employed people who responded to the survey, 152 were no longer in business.

business for more than 5 years would normally be about 45%. In random surveys, however, there is often a bias toward more established firms because of difficulties in contacting the owners of newer firms, due to their rapid turnover. As well, this particular survey drew more heavily from incorporated businesses than unincorporated businesses.

For about 70% of the respondents, their current business is the first business they have owned. Most of them have not gone any further; almost two-thirds own only one business. Others have been more expansive: 18% have bought or started one other business and another 18% have bought or started two or more other businesses.

Less than 15% of the sample are women. This is somewhat lower than the percentage of self-employed people who are women according to a number of other surveys (21%-30% depending on the survey), but it is not uncommon for random surveys to find that only 10%-15% of the firms in their sample are owned by women. Many of the firms owned by women are at an earlier stage of development than those owned by men, if only because women started emerging as entrepreneurs more recently; moreover, women tend to start cautiously and build slowly, so their low profile often means they do not show up in random surveys.

In general, these firms do not attach a high priority to exporting. Less than 20% of them export outside their province; only 8% export outside Canada.

Personal background

The average age of the respondents at the time they went into business for themselves was 34. However, those who started before 1984 were somewhat younger, at 33, than the ones who started after 1983, who averaged 37. Before 1984, 60% of the new owners were less than 35, compared to 44% of the total subsequently. Startups by people aged 45 or older accounted for 10.6% of the total before 1984 and 19.5% subsequently. The more recent owners are in line with the rest of the country; the age distribution for the post-1983 period is

almost identical with the distribution in a comparable study of startups in 1987 across Canada³.

New owners are not only older, but they are coming from very different career backgrounds, as Table 4.1 shows.

Table 4.1 ⁴
Life before entrepreneurship

Occupation prior to starting their current business of entrepreneurs in Atlantic Canada (surveyed in 1989), with firms that started before 1984 shown separately from those that started in 1984 or later

Employment before startup	Year of startup		
	All	Pre-1984	Post-1983
Self-employed	26.7	21.4	34.8
Business executive	9.8	7.6	13.1
Executive/manager/owner	36.5	29.0	47.9
Business employee	36.5	41.9	29.1
Government employee	5.6	6.4	4.5
Academic	1.5	0.8	1.9
Employee	43.6	49.1	35.5
Student	5.4	6.6	3.5
Unemployed	4.4	3.1	6.1
Other	10.1	12.2	7.0
TOTAL	100.0	100.0	100.0

In the most recent period, after 1983, by far the most important source of new entrepreneurs, accounting for almost half the total in the Atlantic provinces, were executives, professionals and people who were previously self-employed. More than a third of the startups after 1983 were by people who had already experienced self-employment. Before 1984, by

³*Study of Business Startups in Canada*, prepared by Decision Marketing Research Ltd. 1988

⁴Sources: Ibid. *Survey of Business Startups in Atlantic Canada*, and *Newly-formed Small Businesses in Ontario, 1982-84*, 1988, conducted by The Creative Research Group Ltd. for the Small Business Branch of the Ministry of Industry, Trade and Technology, Ontario.

contrast, only a fifth had already been self-employed and less than 30% came from the ranks of executives, professionals and the self-employed. The biggest source of new entrepreneurs then was business employees, who accounted for 42% of the total. If all people who made the switch from non-executive employee to entrepreneur are combined, this group's contribution to the total supply of entrepreneurs fell from 49% before 1984 to 35% subsequently. Finally, the number who went into business after becoming unemployed doubled to 6% after 1983.

When these people decided to take the plunge, the most important influences on their decisions were their personal contacts and their previous employment. These two factors, alone or in combination, were the major influences behind almost half the decisions to become entrepreneurs. Personal contacts were most often cited in the survey, at 55% compared to 36% for previous employment. The third important influence were family members, who were cited by 30%. The next most frequent influence was school or training, at 8%. These findings are consistent with those of other such studies.

In another study⁵ of entrepreneurs in the region, it was found that two thirds started their businesses from scratch and almost a third inherited or purchased their businesses.

Not surprisingly, age made a difference in what influences really counted in the decision to become an entrepreneur. Personal contacts become a more important influence as a person grows older, particularly with men, two thirds of whom cited it as an influence once they had reached 45. For men under 35, only 44% mentioned it. The situation is similar for women, though less frequent; interestingly, women over 44 mention it slightly less often than those aged 35-44, indicating perhaps a higher proportion who have spent time outside the work force.

Previous employment also becomes progressively more important as the new entrepreneurs grew older, as might have been expected, but the survey shows that its importance drops off sharply once they reach 45. Only 30% of the men aged 45 and over mentioned it, compared to 41% of their counterparts aged 35-44. For women, the comparable figures were 23% and

⁵Source: Unpublished research conducted by the Atlantic Entrepreneurial Institute.

33% respectively. Presumably, entrepreneurship is a vehicle for a dramatic career change for people facing their mid-life crises. This is supported by other research, which shows a significant number of new entrepreneurs are "corporate refugees", who have decided they don't like corporate life or vice versa. Other studies have shown that a significant proportion of new entrepreneurs are "pushed" into entrepreneurship by adverse experiences, but often these people have been thinking of starting their own businesses for some time, so they quickly see their "push" as an opportunity.

The influence of the family declines rapidly once people pass age 25. It was mentioned as an important influence by 44% of the men and 53% of the women aged under 25 but only 18% and 15% of the men and women who had reached 45.

Turning to the biggest influence on the decision to become an entrepreneur - their own feelings - the biggest motivator for these people is their desire to be their own boss. This is consistent with many other studies of startups. The consensus stops right there, however. One explanation for the divergence of the findings on motivation is the wide range of different methodologies used in the studies: the conclusions of many of the surveys are open to question because they are based on a limited list of possible motivations suggested to the respondents. Few entrepreneurs will take the time to reflect carefully on their motivations when they are responding to surveys, so they rarely offer additional motivations that are not on the questionnaire's list of suggestions.

In a series of studies during the 1980s by the federal and Ontario governments⁶, the perspective on motivations for starting a business changed gradually as the questionnaires became progressively more penetrating. In the early surveys, an initial reading of the motivations for starting a business came up with the six principal motivations:

⁶Source: *The State of Small Business, Ontario, 1989*

1. To make money
2. To be my own boss
3. Saw a need for a product or service
4. Always wanted to run a business, to do it my way
5. Wanted to use my experience and skills
6. Needed to make a living, economic necessity

Of these, the role of money is by far the most complex. People tend to be less frank on this subject than almost any other. Some value money as a measure of their success; still others see it as a necessary ingredient in the quest to achieve their non-monetary goals. And some want money for the sense of power they believe it will bring them.

For people going into business for the first time, money can be important because they believe greater earnings will prove that their talents were not appropriately recognized by their former employer. Money has also become a prime motivator in recent years for the people who are forced to start their own business because they were laid off and couldn't find another job, but this phenomenon is still a relatively minor occurrence.

Saying they are motivated by money can therefore mean many different things. It is interesting to note, however, that when entrepreneurs are given a wide choice of motivations to choose from in describing their own experience, money ranks much lower than it does in studies where the choices are fewer. It is reasonable to postulate that money sometimes acts as a symbol for a number of other, more deeply felt motivations. In the study mentioned previously⁷, money was mentioned as a motivator for starting a business by only 14% of the respondents, well behind "personal challenge" and "be my own boss".

With these caveats in mind, Table 4.2 compares the motivations of the entrepreneurs in the region and in Canada (the national survey includes a significant proportion of entrepreneurs in Atlantic Canada). The biggest difference between these two studies is money, which ranks 17th in the national study and second in the region.

⁷Source: Unpublished research conducted by the Atlantic Entrepreneurial Institute

Table 4.2⁸
What motivates entrepreneurs

Ranking of motivations, by percentage of respondents' mentions, of entrepreneurs in Atlantic Canada† and Canada†.

	Atlantic Canada		Canada	
	Motivations		Motivations	
1	Be my own boss	57%	Sense of accomplishment	76%
2	Make more money	56%	Be my own boss	75%
3	Personal accomplishment	54%	Freedom to adapt my own approach to work	66%
4	Use my skills better	32%	Variety and adventure at work	64%
5	Market opening	30%	Seize an opportunity	64%
6	Family tradition	14%	Start and grow a new business	63%
7	No suitable employment	11%	Lead rather than be led	60%
8	Other reasons	10%	Contribute to the firm's success	59%
9			Develop an idea	58%
10			Keep learning	54%
11			Use my training and skills better	51%
12			Control my time	50%
13			Made sense at that time of life	50%
14			Work with people I choose	43%
15			Be in the forefront of technology	42%
16			Have fun	42%
17			High earnings	42%
18			Greater flexibility	41%
19			Work with people I like	37%
20			Security for me and my family	35%
21			Recognition for achievement	34%
22			Be respected by friends	32%
23			Frustrated in previous job	26%
24			Work where family and I want	25%
25			High position in society	23%
26			Avoid an unreasonable boss	16%

†Notes: The two studies were done in 1989 in Atlantic Canada and 1987 in Canada

⁸Sources: Ibid. *Survey of Business Startups in Atlantic Canada*, and the Canadian portion of a multi-national cross-cultural study *A Cross-cultural Perspective on Entrepreneurship in Canada: What Motivates People to Start their own Business*, by Rena Blatt, John Kyle, Andrew Szonyi and Roger Blais, 1988.

The examination of motivations was much deeper in the national study, which elicited a more subtle expression of motivations. There are risks to this approach, however, as many are repetitive. For example, the motivation implied in wanting to "work with people I choose" is not very different from wanting to "work with people I like" and it's likely a large proportion of respondents to the two questions were the same people. The same could be said for "frustrated in previous job" and "avoid an unreasonable boss"; or even "be my own boss" and "freedom to adapt my own approach to work". The list could therefore be somewhat shorter, but it does serve the important purpose of eliciting *all* the possible motivations. Some of its more important conclusions, beyond the relative unimportance of money, that can be gleaned from the two studies include:

- The need to express themselves creatively features prominently. Variations of this motivation rank first and fourth in the regional study and second, third, fourth, ninth and 11th in the national study.
- The need to achieve is an important motivator. It ranks third in the regional study, and first and seventh in the national study.
- "Corporate refugees" are an important segment of the new entrepreneurs. More than one quarter were frustrated with their previous jobs and a sixth wanted to avoid working for an unreasonable boss. More than a third wanted to work with people they liked.
- A major part of the drive to succeed is the desire to build something that will last. Variations on this theme include "start and grow a business" (5th), "contribute to the firm's success" (8th) and "develop an idea" (9th).
- Recognition is *not* a major motivator, ranking only 21st in the national study. This may come as a surprise to many, since entrepreneurs are often assumed to be needy of recognition. However, almost all entrepreneurs have to battle the scepticism of practically everyone they know over their ability to achieve their goals, so they would not survive emotionally if they needed recognition. The prospect of recognition may be a source of strength through years of "just you wait", but it is not a motivator at the time of startup.

This raises the important point that motivations change with age and time and can also vary by sex. Successful entrepreneurs who have been in business for 15 years are not motivated by the opportunity to be their own boss, because they already enjoy that. Both these studies sought answers that related to the startup, so "being my own boss" ranks high. In another study of established, successful entrepreneurs, this motivation appeared as independence in only 13th place. The most frequently mentioned motivator for these entrepreneurs was "having fun", as Table 4.3 shows.

Table 4.3⁹
Motivations of successful entrepreneurs

Ranking of motivations, by percentage of respondents' mentions, of successful entrepreneurs in Canada

Rank	Motivations	Mentions
1	Having fun	44%
2	Building a lasting organization	34%
3	Money	33%
4	Winning in business	29%
5	Recognition	26%
6	Sense of accomplishment	23%
7	Seeing people fulfil their potential	21%
8	The challenge	14%
9	Improving the world in some way	12%
10	Problem-solving	10%
11	Producing a top-quality product	10%
12	Meeting interesting people	9%
13	Independence	8%
14	Power	8%
15	Proving a point to doubters	7%
16	Creativity	6%
17	Helping the family	4%

Business becomes almost a game for successful entrepreneurs and they expect to have fun with it. Winning, challenge and problem-solving feature prominently. They are also

⁹Source: *The Entrepreneurial Edge*, by Donald Rumball. Key Porter, 1988

committed to "building a lasting organization" and "improving the world in some way". These people know they have what it takes to succeed, so their businesses become a vehicle for making a difference to the world in which they live - and having fun doing it. They also want some recognition for their successes, ranking that in fifth place.

Just as motivations change with time, so do they change with age, as Table 4.4 shows.

Table 4.4 ¹⁰
Motivations change with age

Percentage of people in each category who ranked a motivation in the top three places. Males and females, by age. Atlantic Canada.

Motivation	Age			
	Below 25	25-34	35-44	44 +
MALES				
Be my own boss	70%	63%	51%	42%
Make more money	53%	58%	53%	59%
Personal accomplishment	52%	55%	54%	45%
Make better use of my skills	33%	30%	31%	36%
Market opening	24%	30%	30%	37%
Family tradition	27%	16%	9%	12%
No suitable employment	6%	11%	15%	11%
FEMALES				
Be my own boss	60%	46%	54%	39%
Make more money	47%	52%	54%	54%
Personal accomplishment	40%	60%	69%	54%
Make better use of my skills	33%	30%	33%	15%
Market opening	7%	40%	41%	15%
Family tradition	13%	4%	5%	15%
No suitable employment	7%	10%	8%	8%

A number of conclusions emerge from this table:

- Making more money becomes more important as people grow older. It is the most important motivation for men and

¹⁰Source: Ibid. *Survey of Business Startups*

women aged 45 and up. It is the second most important for all other ages.

- Being their own boss is the most important motivation for only the youngest entrepreneurs - women aged less than 25 and men aged less than 35.

- A sense of accomplishment is a more significant motivator for women than for men. It is the top motivation for all women except those aged less than 25, but for men it is top only in the 35-44 age bracket.

- Contrary to conventional wisdom, inability to find a suitable job is *least* important for the youngest entrepreneurs in deciding to take the plunge and start their own businesses. For men, however, it is a factor for almost one sixth of the startups at ages 35 to 44.

- Family tradition is a factor for a quarter of the men aged less than 25.

An important aspect of the personal background of entrepreneurs in the Atlantic region is their educational attainments. New entrepreneurs are better educated than both their predecessors and the working age population, as Chart 4.1 shows.

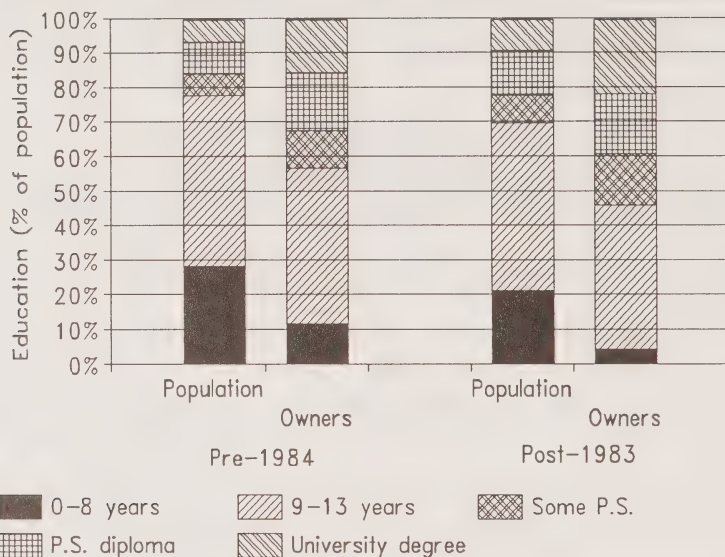
The proportion of people who had a community college diploma or a university degree in the late 1980s was 39% of the entrepreneurs who started a business at this time, almost double the 22% for the working age population as a whole. Equally, less than half the entrepreneurs stopped their education when they left high school, compared to 70% of the working age population.

The earlier breed of entrepreneurs was also significantly better educated than the working population, but not quite as advanced as their successors after 1983. Less than a third of them had a degree or a diploma and 57% did not advance beyond a high-school education.

One final observation, which comes from the study by the Atlantic Entrepreneurial Institute, is that 30% of the respondents in its survey were eldest children; 18% were the youngest in their families, 46% were in between and 6% were only children.

Chart 4.1 ¹¹
Entrepreneurs are better educated

Educational attainment of the working age population and of entrepreneurs starting new businesses, expressed as a percentage of the total within each group. Pre-1984 and post-1983



Notes: The educational attainment for the working age population pre-1984 is the distribution that existed in 1980; for post-1983, it is 1989.

The categories of education are not identical for entrepreneurs and the working population as a whole; entrepreneurs who had some post-secondary education were limited to those who went to university but did not graduate, while the whole population also includes those who went to community college without graduating.

Financing

Atlantic Canadians who start new businesses invest more heavily than their counterparts in the rest of the country. The national study of startups in 1987 found that 53% of the

¹¹Sources: Ibid. *Survey of Business Startups* and *A Profile of the Labour Force in Atlantic Canada*, prepared by the Canadian Labour Market and Productivity Centre for the Atlantic Canada Opportunities Agency. October, 1990

firms involved an investment of less than \$15,000. The *Survey of Business Startups* in Atlantic Canada found that only 39% invested less than \$15,000, as Table 4.5 shows.

It is impossible to calculate the average investment in these studies precisely, as exact investment amounts are not available, but the estimated average investment in Atlantic Canada over a period of two decades up to 1989 was higher, at \$65,000, than the average investment in 1987 in Canada, which was \$58,000.

It is not clear why the region's startups appear to attract greater investment than elsewhere in Canada, but there may be a clue in comparing the startups before 1984 and after 1983. The proportion investing less than \$15,000 was 45% in the earlier period and only 29% in the later. The average investment was \$95,000 in firms started after 1983, compared to \$47,000 previously.

Table 4.5 ¹²
Startup investments

Total amount invested at startup, comparing firms started before 1984 and after 1983 in Atlantic Canada with firms started in 1987 in Canada

Investment	Atlantic Canada			Canada
	Pre-1984	Post-1983	All years	
Less than \$15,000	45	29	39	54
\$15,000 - \$100,000	42	49	45	33
\$100,000 - \$500,000	12	18	14	11
More than \$500,000	1	4	2	2
Total	100	100	100	100
 Average	 \$47,000	 \$95,000	 \$65,000	 \$58,000
Median	\$18,000	\$40,000	\$22,000	\$14,000

Notes: The figures for the average and median investments are estimates. Also, the proportion of startups that invested \$15,000 to \$100,000 and \$100,000 to \$500,000 in the Canadian study are estimates because the groupings were not the same.

The contrast is even more illuminating when median investments are considered. Half the startups in the region involved an investment of \$18,000 or less up to 1983, which is compar-

¹²Sources: Ibid. *Survey of Business Startups in Atlantic Canada* and *Study of Business Startups in Canada*, prepared by Decision marketing Research Ltd. for the Department of Regional Industrial Expansion, Ottawa

able to the median of \$14,000 nationally; after 1983, however, the halfway mark was reached at \$40,000. In the study conducted by the Atlantic Entrepreneurial Institute, it appears that 40% of the respondents received no financial assistance at all when they started their firms¹³. These firms had been in business for an average of 10 years and 60% were younger than 10 years, so even in firms started after 1983, a significant proportion receive no financial assistance. It therefore appears that the region's average investment was skewed in the second half of the 1980s by a small number of very large investments, which may be attributable to the greater relative availability of government grants and loan guarantees.

There is support for this contention when the source of funding for startups is examined. The regional study¹⁴ found that the government is a more significant player in the region, contributing to the initial investment in 10% of the startups, compared to 7% in Canada. A subsequent survey in the region found that 34% of firms have received financial assistance from one or more levels of government¹⁵. This study was not limited to startups, so it includes expansion financing, but it gives a good indication of the degree to which governments are involved in direct financial assistance in the region. Financial assistance was provided to 16% of the firms by provincial governments, 12% by the Atlantic Canada Opportunities Agency and 13% by other federal agencies or departments. In the resource industries, 55% received assistance from provincial governments, and 42% from ACOA; in manufacturing, 36% received assistance from provincial governments and 41% from ACOA.

An even more important indicator, however, is the lesser reliance on personal funds and the "love money" of friends and relatives in the region, only 12% of whom invested in startups, compared to 23% nationally. Family and friends appear to be less convinced of the soundness of investments in their local

¹³Source: Unpublished research conducted by the Atlantic Entrepreneurial Institute

¹⁴Source: Ibid. *Survey of Business Startups in Atlantic Canada*

¹⁵Source: *Survey of Business Needs in Atlantic Canada*, conducted by Omnifacts Research for the Atlantic Provinces Chamber of Commerce. May, 1991

economy in Atlantic Canada than they do in the rest of the country. The feeling is shared to a degree by the entrepreneurs themselves, only 76% of whom invest their own funds in their startups, compared to 82% nationally. In the AEI study, only 7% of the respondents received their principal funding from relatives and only 42% relied mainly on personal funds (in this study, the sources are principal sources, whereas in the startups survey, the respondents listed all sources of financing).

To take up the slack, the region's entrepreneurs rely more heavily on lending institutions, as Table 4.6 shows.

Table 4.6 ¹⁶
Where the money comes from

Percentage of startups in Atlantic Canada and Canada mentioning each source of funds in the initial investment

Source of funds	Atlantic Canada	Canada
Personal funds	76%	82%
Family	10%	18%
Friends	2%	5%
Personal and "love money"	88%	105%
Lending institutions	54%	35%
Investors	2%	8%
Related businesses	4%	7%
Other loans	3%	2%
Total other investors	9%	17%
Government grants and contributions	7%	
Government loan guarantees	3%	
Total government sponsored	10%	7%
GRAND TOTAL	161%	164%

Notes: The totals exceed 100% because each startup used, on average 1.6 sources of funds. The sub-totals may overstate the percentage reporting use of that group of sources, because a firm may have used more than one of the sources within the sub-group.

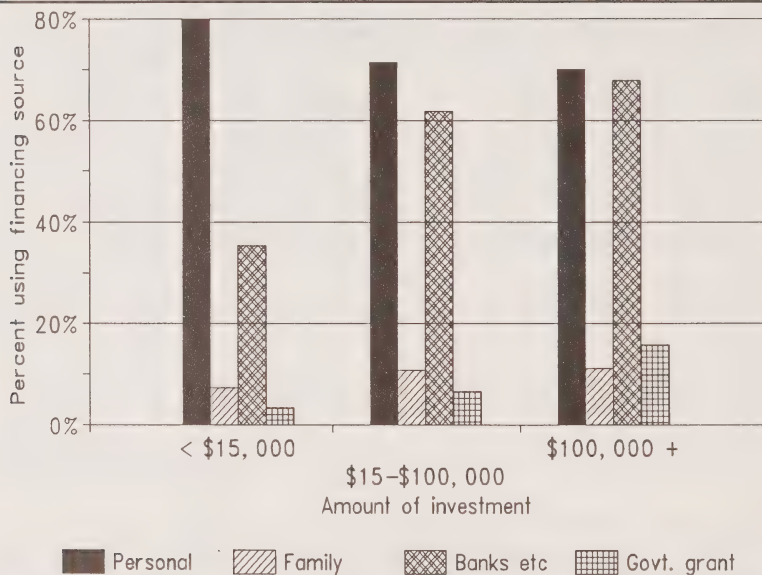
¹⁶Sources: Ibid. *Survey of Business Startups in Atlantic Canada*, and *Study of Business Startups in Canada*

Lending institutions funded 54% of the startups in the region, compared to 35% nationally. The AEI study showed comparable results, bearing in mind it lists principal sources of funds, not all sources; it found that 32% received their principal funding from lending institutions.

There is significant variation in these findings depending on the size of the new venture, as Chart 4.2 shows.

Chart 4.2¹⁷
Financings, big and small

Percentage of startups that use the major sources of funds, by amount of investment. Atlantic Canada



Notes: The sources of funds included in this graph are those used by more than 5% of the sample (see Table 4.6).

As might be expected the smallest startups (which invest less than \$15,000) use a narrower range of sources of financing than do the larger firms. The smallest ones use an average of

¹⁷Source: Ibid. *Survey of Business Startups in Atlantic Canada*

1.3 sources, compared to almost 2 by the largest. The only source on which the smallest startups rely to a greater extent than larger firms is personal funds, which are used by 80% of the smallest and about 70% of the rest. As Chart 4.2 shows, however, all other sources of funding are used proportionately less by the smallest startups, particularly government grants, which are used by 16% of startups involving an investment of more than \$100,000, but only 3% of the smallest firms.

It is interesting that the region's smallest startups are able to attract relatively little support from their families: only 7% persuaded their relatives to invest in them, compared to 11% for larger firms. Also, the banks lent money to far fewer of the smallest firms, only 35% of which borrowed from lending institutions, compared to more than 60% of all other startups. In another recent study¹⁸, firms with fewer than 10 employees indicated significantly lower use of government financing than firms with more than 25 employees: provincial governments helped finance 11% of the small firms and 29% of the bigger firms, while ACOA helped 5% of the small firms and 31% of the bigger firms. Of course, most of the so-called bigger firms are still small businesses, but these results indicate that micro businesses find it relatively difficult to attract government support.

If the sourcing of investment funding is compared with startups across the country, the pattern in Atlantic Canada for firms investing less than \$15,000 is comparable to the national average; for larger firms, however, the pattern is significantly different. The evidence supports the hypothesis that there is relatively more support for larger startups in the region than elsewhere in Canada, and that the government and the lending institutions play an important role in financing them.

Proclivity for growth

The final aspect of startups that was examined in the regional study is growth. At startup, these firms employed very few people - 81% had five or fewer employees and only

¹⁸Source: Ibid. *Survey of Business Needs in Atlantic Canada*

8% had more than 10 employees. By the time the survey was taken in 1989, the number with five or fewer employees had dropped to 51% and the number with more than 10 had risen to 24%. Only 6½% had fewer employees since they started out, while 14% had increased by six to ten employees and 10% had increased by 11 to 50. A quarter did not change and almost half (45%) increased by one to five. This is not spectacular in absolute terms, but it represents more than a doubling (to more than nine per firm) in proportional terms. This is, of course, the secret to the success of small firms; they don't grow by large numbers individually, but there are so many of them, the sum is impressive.

It takes time to grow a business, however. Among firms started after 1983, only 8% added 11 or more employees and 40% either decreased or did not change employment levels. For firms started before 1978, 15% added 11 or more employees and only 22% did not change or decreased; almost two thirds added up to 10 employees.

In exploring the contributing factors to this growth, by far the most important ingredient is qualified personnel, as Table 4.7 shows. This is consistent with numerous surveys indicating that the biggest problem for businesses is finding skilled people.

The second ranked "success factor" is capital, which is to be expected. After this, however, the perspective on what's important to succeed is more operationally focused. Marketing, competition, production facilities and packaging all reflect specific needs of the people in the study. In the AEI study, the respondents ranked "hard work" as the biggest contributor to their success, followed by "good product or service", then "good staff".

It is reasonable to expect that there might be some correlation between the success factors and the kinds of advice that these entrepreneurs consider to be most useful in helping them to succeed. And indeed, Table 4.7 shows just that: information is the most important (usually relating to marketing, the competition, technology developments and planning). After second-ranked loans, the assistance clearly reflects the specific success factors, emphasizing marketing and management training and counselling.

It is noteworthy that the financial needs are generally lower down in the priority list, indicating the priority for non-financial

assistance in addition to the current range of financial programs provided by governments. Respondents to the study conducted for the Atlantic Provinces Chamber of Commerce also rates financial assistance low. They rated human resources development as the most important area for government (73%), while investment support was rated a priority by less than half of them.

Table 4.7¹⁹
What counts and what helps

Ranking of business factors that entrepreneurs feel contributed most to their success and of assistance that they found most helpful

Rank	Success factors		Important assistance	
1	Qualified personnel	87%	Information	60%
2	Capital	53%	Loans	39%
3	Marketing	48%	Management training	36%
4	Competition	37%	Planning/marketing assistance	36%
5	Production facilities	22%	Counselling	28%
6	Changing technology	18%	Grants	27%
7	Packaging	11%	Interest rate subsidy	26%
8	Regulatory approval	10%	Loan guarantees	17%
9	Patent approval	5%	Equity investment	11%
10	Other	17%	Other	7%
TOTAL		308	Total	288

Why small firms fail

When people talk of the high failure rate of small firms, they usually think of bankruptcy. This is a gross misconception. Only about one in every ten businesses that are terminated are bankruptcies or receiverships: the rest are voluntarily discontinued for a wide variety of reasons or sold as going concerns.

When entrepreneurs start a new venture, they invariably have limited financial resources, so if it doesn't work out

¹⁹Source: Ibid. *Survey of Business Startups in Atlantic Canada*

quickly enough, they will not hesitate to close the business down before they lose any more money than is necessary. As Table 4.8 shows, a 1989 study of business terminations found that more than 40% of the failures of young firms are voluntary closures, where the entrepreneur swallows the loss and walks away from the business. Indeed, not all of them are unprofitable; many of them make money but not enough to compensate the owners for the effort they put into them; so they close them down, often to pursue other, more attractive entrepreneurial opportunities.

Table 4.8 ²⁰
Anatomy of failure

Percentage distribution of failed businesses by the nature of their outcome. Atlantic Canada, 1987-88

Outcome of the business	Distribution	Sub-totals
Bankruptcy	6.4%	
Receivership	5.0%	
Forced closure		11.5%
Closed at wish of owner	33.3%	
Temporarily inactive	7.8%	
Voluntary closure		41.1%
Sold as a going concern	25.5%	
Absorbed by another business	10.6%	
Disposed of		36.1%
Other	11.3%	11.3%
TOTAL		100.0%

This is why business "failures" do not rise significantly during recessions, as was mentioned in Chapter 3. When a business is not performing to the owner's satisfaction, the best solution is to sell it as a going concern. This offers some hope of recovering at least part of the investment. If the owner

²⁰Source: *Survey of Business Terminations*, prepared by the Small Business and Special Surveys division of Statistics Canada for the Atlantic Canada Opportunities Agency

decides to sell during a recession, however, there are generally few buyers and prices are depressed, so he or she tries to hang on to the business until better times return and the chances improve of negotiating an acceptable price for the business. For an important proportion of the businesses in trouble during a recession, however, the owners cannot afford to wait it out, because they are losing too much money; many of these are forced to declare bankruptcy or go into receivership.

There are no statistics on the make-up of failures from year to year, but it is reasonable to postulate that voluntary closures fall sharply going into a recession - enough, in fact, to more than compensate for a significant increase in bankruptcies and receiverships. Similarly, businesses that are sold would decrease during recessions, and those that are absorbed into other businesses would increase during recessions. The net effect of recessions is therefore to increase the number of bankruptcies and receiverships, but reduce the total number of discontinued businesses. The firms which succumb to recessions are often run by less experienced or ineffective businesspeople, so recessions act as a winnowing process that removes the less resilient owners or serves as a rite of passage to help new owners learn the secrets of survival.

These conclusions are born out by the status of the entrepreneurs after their firms went out of business. A fifth of them subsequently started another business, a quarter of them retired and a third found a job with someone else. Although the sample is too small to be able to place too much faith in this conclusion, the study found that the owners of the firms that went bankrupt or into receivership all went to work for someone else. This suggests that there is significant turnover in entrepreneurs, many of whom go back to a job after a failure in order to earn some money while they plan their next venture. Almost all the people who retired closed down their businesses or sold them.

The reasons which these entrepreneurs gave for the failure of their businesses are revealing. A quarter said they couldn't make enough money and another 13% said there was too much competition, which amounts to the same thing. In other words, about 40% (the same as the proportion of voluntary closures) didn't feel the return on their ventures was worth the effort they put into them. The other significant reason, accounting for

a quarter of the failures, were management problems, specifically managing growth and problems with personnel, each of which precipitated 13% of the failures.

When the owners of these failed businesses were asked what types of assistance they feel would have been useful, an interesting picture emerges. Almost half of them recognize that they needed training or counselling, which is slightly more than the 43% who feel some kind of financial assistance would have been most beneficial to their chances of survival. Governments and private-sector consultants often find that entrepreneurs resist advice, if only because they don't feel they have time to save their businesses. This indicates that the assumed resistance may not be as strong as has been expected; perhaps the timing of governments and consultants in offering their help is bad, because they are too late.

Among the specific types of training assistance cited in this study, the needs were fairly evenly spread between information and counselling, management training and assistance in planning and marketing. Among the types of financial assistance cited, interest rate subsidies and loan guarantees were the most popular and additional equity investment was mentioned by only a few of the respondents. It is generally recognized that small Canadian firms carry too little equity.

When the types of assistance that would have been considered useful are compared to the reasons cited for failure, it is clear that the owners have taken their lessons to heart. Among those who failed because they could not manage sufficiently well, 85% said that some kind of training would have been most helpful; only 14% of them felt that financial assistance would have solved their problems. On the other hand, the owners who couldn't show enough profit to make their effort worthwhile were much more inclined to financial assistance, as Table 4.9 shows: more than 60% wanted interest rate subsidies, loan guarantees or equity investors, while only 33% felt they needed some training.

These results are consistent with the *Survey of Business Startups in Atlantic Canada*, in which the types of assistance mentioned most often as being helpful for startups were the various forms of management training. Various forms of training assistance were mentioned a total of 1.6 times by each respondent on average, while financial aid rated 1.2 per

respondent. Although the two studies are not comparable because there are multiple responses in the startup survey while respondents to the terminations study were restricted to the single most useful type of assistance, the direction is clear. People with businesses that are still going rate training and counselling even more highly than do owners whose businesses have failed.

Table 4.9 ²¹
Why they fail - and what would have helped

Assistance that is considered most useful by owners of businesses that terminated, by major problem contributing to the termination. Atlantic Canada. 1987-88

Major problem contributing to failure	Type of assistance considered useful			
	Training & counselling	Financial aid	Other	Total
Management	86%	14%	0%	100%
Finances	33%	61%	6%	100%
Operations	33%	39%	28%	100%
Other	33%	43%	24%	100%
All	49%	43%	8%	100%

Notes: The specific problems contributing to failure are:

- Management: "managing business growth" and "personnel"
- Finances: "couldn't make enough money", "too much competition" and "financial backing"
- Operations: "marketing", "regulations", "location" and "changing technology"

The specific types of assistance considered useful are:

- Information/counselling - "information/counselling", "management training" and "planning and marketing"
- Financial aid: "interest rate subsidies", "loan guarantees" and "equity"

On average the terminated businesses had been operating for more than 14 years, which is double the life expectancy of new ventures in the region today. The average age of the owners at the time they started their ventures was 38, or four years more than the average age at startup in the region. Most interesting of all, the owners who were youngest at startup terminated their businesses after the longest period: startups by people aged 19 to 25 enjoyed 18 years of operation before closing down, compared to nine years for people who were more than 50 when they started. It is not clear why the older

²¹Source: Ibid. *Survey of Business Terminations*

people went out of business sooner, but it probably reflects the reality that people who start businesses after they turn 50 have less time to play with, so they pull the plug more quickly when things go wrong.

In terms of the size of these businesses, they declined by an average of 23% from their peak year to the last year before being terminated, from an average of 4.6 employees to 3.5. The biggest declines were in the firms that went into receiverships (35%) and the smallest were in those sold as a going concern (2%). The receiverships also had by far the biggest workforces in their peak years, at 7.9 employees each, compared to the next highest of 5.2 in firms that were closed at the owner's wish.

CHAPTER 5

ENTREPRENEURSHIP AND EDUCATION

Entrepreneurship, like any other phenomenon, thrives best in a supportive environment. The fragile and dynamic nature of entrepreneurship wilts if the social, ethical and cultural influences that shape an economy do not encourage people to strike out on their own. If children are encouraged to carve their own path through life, to try bold initiatives, to take risks, without fear that failure will brand them as outlaws in the eyes of their fellow citizens, they will be innovative and they will turn in great numbers to entrepreneurship as a career and a way of life. If, on the other hand, children are taught to "know their place" or are taught that those who do not conform will have trouble being accepted, then they will become part of a regimented and disciplined economy, composed mainly of authoritarian organizations. The variations and subtleties between and outside these examples are endless, but the conclusion is inescapable: the personality of an economy rests not on the practice of business, but on the social, ethical and cultural influences that shape the spirit of the people who work in business organizations. It has become a priority for the developed world to develop employees who are prepared to share responsibility for the long-term welfare of the layers of organizations to which they belong.

For most of this century, the business world in the developed countries has focused on creating a corporatist culture that rejected the entrepreneurial culture on which the world's economy had been based since time immemorial. This effort has met with enormous success, creating, in the process, great wealth and rapid progress; but its deficiencies have become apparent as the pace of change has accelerated and the ponderous weight of giant bureaucracies has become obvious. Perhaps inevitably, attention has turned to what is, once again, the major source of economic growth and vitality - the entrepreneurial sector. There can be no turning back the clock to the days before corporatism was born, but there is a growing

recognition that a new, more powerful model for economic and social growth can be built by merging the two cultures.

As numerous countries have embarked on this experiment, they have recognized their task is a matter of social engineering rather than business strategy. To be sure, the push to make large business organizations more entrepreneurial is in full swing, but business leaders everywhere now realize they cannot accomplish their objectives until they have an education system that supports entrepreneurship.

In the Atlantic region, the groundwork for a profound examination of the impact of the education system on the regional economy has been laid with a study called *Projet Entrepreneurship Project (PEP)*¹. This project set itself the task of determining the degree to which the education system exposes children to entrepreneurial ideas and influences and of recommending ways in which the education system could be developed to provide an environment more supportive of entrepreneurship. This chapter is concerned with the findings of the PEP research.

In approaching its research, the PEP team had first to decide what entrepreneurship is. This is a knottier problem than it appears, since there are many, many definitions of the word and no sign yet of any emerging consensus. This research team has opted for the widest possible definition, which does not limit the concept of entrepreneurship to businesses managed by their owners, but extends it to activities in large organizations, governments and non-profit organizations. The PEP report sees entrepreneurship as

"a spirit that energizes a person's attitude and behaviour, an attitude that lies at the core of one's self-image and makes him or her more willing to take risks in the development, promotion and pursuit of a specific project."

¹ The constituent reports of Projet Entrepreneurship Project are *New Directions in Enterprise Education: A Research Venture with a Vision for Atlantic Canada*, and *Education à l'Entrepreneurship dans les Provinces Atlantiques*, produced by Mount Allison University and Université de Moncton respectively, with funding provided by the Atlantic Canada Opportunities Agency. October, 1990.

and its working definition of entrepreneurship is

"a dynamic process through which a person, alone or with others, actualizes his or her potential (i.e. values, attitudes, skills and knowledge) to initiate a project".

On the basis of this definition of entrepreneurship, the authors of the report have chosen the phrase "enterprise education" to reflect a perspective that is much broader than that inherent in the owner-managed businesses that are more commonly associated with the word entrepreneurship.

The project has four parts:

- A survey of Grade 12 students, their parents and their teachers to determine attitudes and beliefs toward entrepreneurship;
- A detailed analysis of a) selected courses across the curriculum that are relevant to the teaching of entrepreneurship in the four provincial school systems and b) the teaching methodologies and strategies currently in use in the region's schools;
- A study of the needs and expectations of the business community regarding entrepreneurship education, including an exploration of potential collaboration between the education system and the business community; and
- An inquiry into post-secondary programs concerning entrepreneurship education.

Attitudes and beliefs about entrepreneurship

Questionnaires on attitudes toward entrepreneurship were completed at more than 100 schools by 4,850 students (of whom 35% were francophone), 1,915 parents (of whom 39% were francophone) and 1,583 teachers (36% from the French school system). The result is a comprehensive and detailed study on attitudes within the school system.

The main demographic findings regarding the students and their teachers were as follows:

- The average age of the students was 17; 53% of them were female. 86% were born in the region. More than a third of

them, however, would like to work outside the region when they leave school and a fifth would like to work in another province within the region. That leaves only 42% who said they would like to work where they now live. The francophone students were more likely than their anglophone counterparts to want to stay in their home community when they leave school.

- About 57% of the teachers were females; 45% of them were in their forties, and 30% were in their thirties.
- A third of the students said they had some experience running their own businesses (delivering papers, for example, or selling a product or service). The anglophone students were slightly more likely to have dabbled in a business venture than the francophones. Among the teachers, 83% reported that they did not have any experience running a business that they owned, not even part-time or seasonal.
- Almost half the students had taken two or three courses that have content relevant to entrepreneurship, as defined by PEP (see Table 5.2). However, more than 40% of the teachers indicated they had not taught any of the courses relevant to entrepreneurship. 30% had taught one, 16% two and 11% three or more.

The project also investigated the demographic profiles of the communities in which the schools were located, with a view to assessing their "entrepreneurial vitality". This research is based on the hypothesis that the entrepreneurial spirit is awakened in young people primarily through contact with entrepreneurs who can act as role models; the quantity and quality of these contacts are the major influence on the development of their competencies and beliefs regarding entrepreneurship. The more people perceive their environment as being supportive of entrepreneurship and the more they believe they have the ability to succeed as entrepreneurs, the more they will turn to entrepreneurship themselves. The major findings in the region were as follows:

- The level of education was generally low in the communities in which these students were growing up. Almost 20% of the population had completed less than nine years of school; between a quarter and a third had completed Grades 9-12 without obtaining a high-school diploma. Less than 5% of the population of the communities where the students resided had

a trade diploma or certificate. These results were consistent across all the communities, except the francophone ones where more than 30% of the population had less than nine years schooling.

- Unemployment in these communities averaged 16%, while self-employed male workers accounted for only 2.4% of the labour force, well below the region's average.

- The average household income in the communities was \$25,000.

In this environment, students reported having few contacts with entrepreneurs. On average, they identified 11 business owners in their social circles, 2½ of them in their immediate family and 3 among neighbours and friends of the family. However, only one business owner, on average, had talked to them of his or her experiences as an owner. The students' awareness of entrepreneurship from this personal network was rated at marginally above "weak" on a scale ranging from none to very strong; and the entrepreneurial encouragement they received from the network was rated at slightly above "rarely".

In their school contacts, the situation was comparable. Contacts with the world of business were rare, as were opportunities to learn about business. Activities that made them aware of entrepreneurship as a career were also rated rare. The only bright spot was that opportunities to develop entrepreneurial qualities at school were afforded "from time to time" on a scale ranging from never to very often. Parents and teachers nonetheless both rated the school system as playing an important role in heightening students' awareness of the world of business.

The media represent a more productive source of entrepreneurial contacts, being used "from time to time" on average. In terms of the image that the media presents of business, the students felt that it was neither positive nor negative.

Despite the low levels of contact with entrepreneurs, students, teachers and parents across the region felt their communities had a moderate degree of entrepreneurial vitality. They also believed that business people and owners met their social responsibilities to a moderate degree. However, in assessing the contribution of small- and mid-sized firms to the economy on a scale of 1 (not at all important), through 5 (moderately important) to 9 (tremendously important), the

parents and teachers were more impressed, at 7.3, than the students, at 6.1.

Students, parents and teachers in the region showed a moderate degree of respect and admiration for business people and owners and a slightly lesser degree of interest in business (5.9 and 4.9 respectively on a 9-point scale). Paradoxically, the students expressed a slightly more active desire for undertaking activities related to the business world (5.7) yet their perceived ability to be successful in starting a business ranked only 4.3.

When it came time for the students to assess their own competence to succeed as entrepreneurs, they rated themselves highly, as Table 5.1 shows.

Table 5.1 ²
How the students rate themselves

Self-assessments of students on the basis of their ratings, on a 9-point scale, of their abilities*. 1990.

Entrepreneurial competencies	Self-assessments of students
Need for achievement	6.1
Leadership	6.3
Drive and energy	6.4
Self-confidence	6.2
Personal characteristics	6.1
Unethical values and attitudes	2.4
General knowledge	5.4
Entrepreneurial skills	5.1
Management skills	6.1

**Notes: The self-assessments were statistical combinations of the students' answers to a number of questions deemed to be relevant to each category. The four questions on unethical values and attitudes were "I would continue to operate a company which I owned even if it was polluting a river", "To make a profit, I would accept investing in a company that takes advantage of workers in other countries", "To make a profit, I would accept falsely advertising a product" and "I would continue to operate a company I owned even if my employees were working in dangerous conditions without their knowing it".*

The basis of the self-assessments for the four personal characteristics and the unethical values and attitudes was a 9-point scale ranging from 1 (I am not at all like that), through 5 (I am more or less like that) to 9 (I am really a lot like that). The self-assessments of the specific abilities ranged from 1 (very low), through 5 (neither high nor low) to 9 (very high).

²Source: Ibid. *New Directions in Enterprise Education*

The students were, in general, sanguine about the support they could expect to receive if they were to go into business for themselves. They anticipated a lot of encouragement and moderate financial assistance from their friends and families. Happily, the parents and teachers felt the same way, rating their willingness to provide encouragement and financial assistance slightly higher than the students.

Despite this optimistic outlook, few of the students showed any intention of becoming entrepreneurs. On average, their intentions toward entrepreneurship were moderately low, at 4.6 on a 9-point scale from 1 (very weak), through 5 (moderate) to 9 (very strong). However, the students who were interested were very interested. One fifth of them said they had strong to very strong intentions (a score of more than 7) and half had moderate intentions (scoring 3 to 7). Almost a third had scores of less than 3.

In examining the factors that persuaded students to consider becoming entrepreneurs, some interesting conclusions emerged on their perceptions of the entrepreneurial vitality of their communities. They were impelled to entrepreneurship if the degree of schooling was low and the unemployment rate high in their communities; on the other hand, if the same conditions existed but there were also a lot of self-employed males, their view was negative. It is possible that this reflects certain areas of the region where a significant proportion of the self-employed are seasonal workers, who operate under enormous instability, which engenders in young observers less admiration and respect for business people than elsewhere.

The data indicated a clear correlation between positive perspectives of a community's vitality and willingness to start a business there. Also, the more students perceive themselves as possessing competence in entrepreneurship, the stronger their intentions to become entrepreneurs. These psychological factors were by far the most significant influences in the students' intention to become an entrepreneur, accounting for a quarter to a half of the variability in their intentions.

Towards an Entrepreneurial Curriculum

Turning to the curricula in schools in the Atlantic provinces, it is a delicate task assessing just how much emphasis is given, in theory and in the classroom, to concepts and skills that support entrepreneurial behaviour.

The PEP team initiated an elaborate process of a) determining the principal components of entrepreneurship, b) finding courses throughout the region that addressed one or more of these components, c) identifying each component within each course and then d) rating the course for the degree of emphasis on the entrepreneurial components.

The first step of identifying the components of entrepreneurship consisted of a thorough search of the literature on entrepreneurship, which yielded a list of 15 components, each with their own list of descriptors, or specific manifestations. The results are shown in Table 5.2.

The next step was to identify courses that touched on these components. The process of identifying and assessing the courses was carried out by teams of analysts in each province, chosen for their experience in teaching the courses in question. They found 59 anglophone courses in the four provinces that exposed students to at least one of the components of entrepreneurship.

The analysis was performed separately for the intended curriculum and the curriculum-in-use. The former was defined by the prescribed or official programs of studies specified by each provincial Department of Education and including all education policy statements and documents (courses of study, guidelines, textbooks and other listed teaching resources). The latter drew on a survey of teachers who commented on their own delivery of the entrepreneurial components in the courses.

Each entrepreneurial component in a course in the intended curriculum was assigned a rating to reflect the emphasis which that component received in that course. The rating was based on a five-point scale as follows:

- 0 absent
- 1 minor emphasis in an optional course
- 2 major emphasis in an optional course
- 3 minor emphasis in a compulsory course
- 4 major emphasis in a compulsory course.

Table 5.2³
Entrepreneurship components and their descriptors

VALUES	
PERSONAL QUALITIES	VALUES AND ATTITUDES
Self-confidence	Motivation
Self-responsibility	Attitudes
Self-determination	Values
Perseverance	Ethics
Risk taking	
Being receptive to change	
SKILLS	
COMMUNICATIONS	DECISION MAKING
Listening	Diagnosing a situation
Speaking	Identifying a problem
Reading	Collecting relevant data
Writing	Analyzing and evaluating this data
Visual literacy	How to make a decision
HUMAN RELATIONS	PROBLEM SOLVING
Establishing a relationship	Implementing a decision
Maintaining a relationship	Evaluating the results
CRITICAL/CREATIVE THINKING	MANAGEMENT
Developing different ideas	Planning
Evaluating ideas	Organizing
	Directing
	Controlling
	Linking management to technology
KNOWLEDGE	
THE WORLD OF BUSINESS	HUMAN RESOURCES
Enterprise	Workforce
Manufacturing	Training
Services	Evaluation/remuneration
Non-profit organizations	Development of human resources
Economic concepts	MARKETING
Economic sectors	Market surveys
Identifying opportunities	Market plans
Business plan	PRODUCTION
Business network	Location
MODELS OF ENTREPRENEURSHIP	Equipment
Forms of entrepreneurship	Purchasing
Historical references	Production planning & control
Contemporary references	LEGAL ASPECTS
FINANCE	Establishment of an enterprise
Strategy	Legal forms of business
Sources of funds	Basic legal requirements
Financial control	

³Source: Ibid. *New Directions in Enterprise Education*

The overall rating for each component was then determined as the average of the ratings assigned to each of the courses which addressed that component; this rating was then expressed as a percentage of the maximum possible rating. This exercise was performed separately for elementary, junior high and senior school.

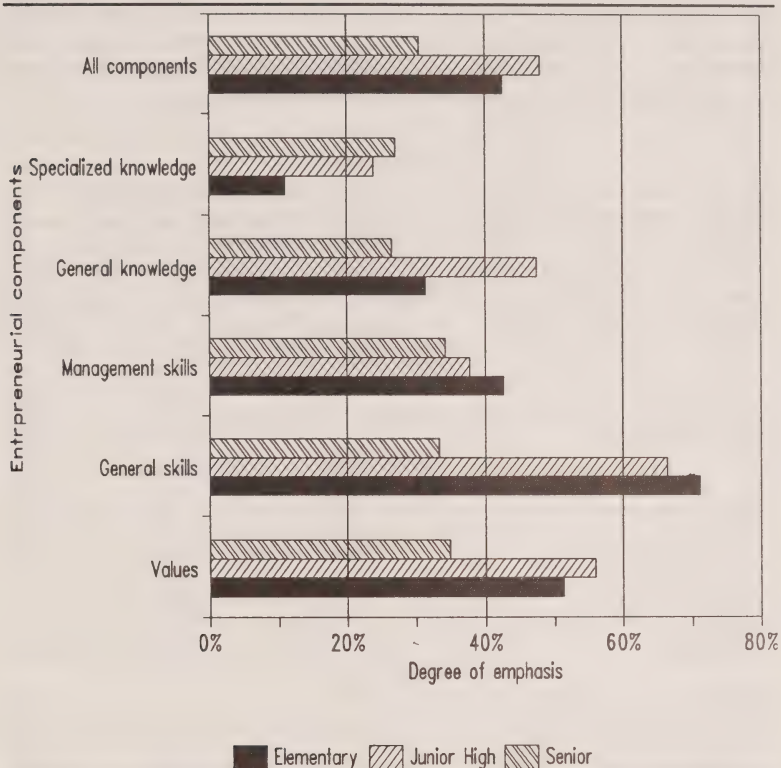
In assessing the different emphasis given by the three levels of schooling, it is helpful to combine the 15 components into five groups that contain similar components. These are:

Grouping	Entrepreneurial component
Values	Personal qualities Values and attitudes
General skills	Communications Human relations Critical/creative thinking Problem-solving Decision-making
Management skills	Management skills
General knowledge	The world of business Models of entrepreneurship Human resources
Specialized knowledge	Finance Marketing Production Legal aspects

The ratings for each grouping is the average of the ratings for the constituent components. As Chart 5.1 shows, the emphasis given to the components of entrepreneurship is sharply different in senior school compared to elementary and junior high.

Chart 5.1⁴
There's a different emphasis in senior schools

Weighted average rating, for the major groupings of components of entrepreneurial behaviour, of the emphasis placed on each grouping in the intended curriculum offered to elementary, junior high and senior students. Average for the Atlantic region, 1990.



Overall, the senior schools received the lowest rating of 31%, compared to 43% in elementary and 48% in junior high. This was mostly because senior schools pay far less attention than elementary and junior high schools to values and general life skills; the younger children received an emphasis rating of

⁴Source: Ibid. *New Directions in Enterprise Education*

50% to 70% in these areas, compared to about a third in senior schools. By contrast, the senior schools placed more emphasis on specialized knowledge, which received a rating of 27%, compared to 11% in elementary and 24% in junior high.

It is not unexpected that elementary schools would place little emphasis on aspects like production and marketing, but the point could be made that the need for values and general life skills does not diminish as children grow older, nor is it necessarily fair to assume that elementary children cannot handle specialized knowledge of entrepreneurship.

Table 5.3 ⁵
The entrepreneurial component in education

Weighted average rating, for each component of entrepreneurial behaviour, of the emphasis placed on that component by courses in the intended curriculum offered to elementary, junior high and senior students. Average for the Atlantic region, 1990.

Entrepreneurial components	Elementary	Junior High	Senior
VALUES			
Personal qualities	67%	64%	33%
Values and attitudes	36%	48%	37%
SKILLS			
Communications	60%	41%	35%
Human relations	48%	37%	22%
Critical/creative thinking	86%	84%	39%
Decision-making	83%	78%	42%
Problem-solving	79%	92%	29%
Management	43%	38%	34%
KNOWLEDGE			
The world of business	37%	49%	24%
Entrepreneurship models	42%	41%	28%
Human resources	15%	53%	27%
Marketing	10%	37%	24%
Production	27%	29%	26%
Finance	6%	18%	32%
Legal	1%	12%	26%

Note: The ratings were prepared by the authors for each province separately. This table combines the provincial ratings, weighted by population, to obtain the regional average.

⁵Source: Ibid. *New Directions in Enterprise Education*.

When the ratings are examined for each component separately, it is interesting to note that, in senior school, there is greater emphasis on values and attitudes than on personal qualities, whereas the other levels pay significantly more attention to personal qualities, as Table 5.3 shows.

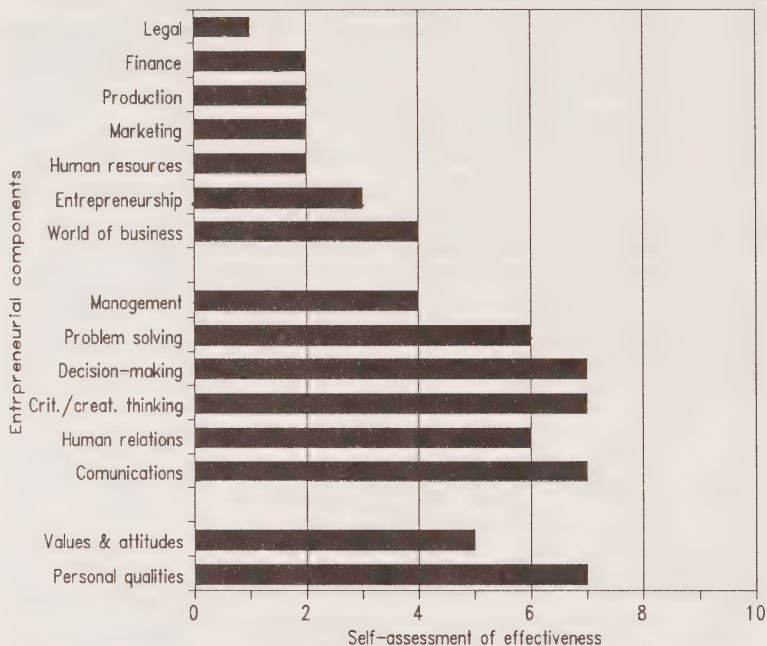
A further alarming observation is the low rating of human relations, which received the lowest or second lowest rankings among all the entrepreneurial skills. In senior school, it received an average emphasis equivalent to minor emphasis in optional courses. Slightly more emphasis was placed on knowledge of human resources, but that was mainly in junior high. The ratings for the knowledge components were generally significantly higher in junior high than in elementary or senior school.

Turning to the implementation of these intended curricula, a sample of more than 500 teachers responded to a questionnaire asking them to assess their own performance as well as their teaching strategies and the resources available to them. One quarter of these teachers had previous business experience but more than half of them had little or no training in business or enterprise education and three quarters of them felt that upgrading courses and inservice programs were inadequate. The level of enthusiasm is high, however, as more than 80% expressed an interest in participating in inservice programs for enterprise education. About half the teachers in the region believe that entrepreneurship should be a compulsory course.

The teachers feel they are less than adequate in teaching the knowledge components of entrepreneurship. In particular, about a quarter of them feel they are not providing any instruction at all in the knowledge components and in management skills. Considering the negligible experience these teachers say they have in business, the poor rating on instruction in specialized business knowledge is not a surprise. But, in other areas of enterprise education, the teachers feel they are doing a reasonably good job, notably values and skills, as Chart 5.2 shows.

Chart 5.2⁶
Where teachers think they shine

Self-assessment by teachers of components of entrepreneurship they teach sufficiently well or very well. October 1990.



Note: The self-assessments are deciles. The eighth decile, for example is when 70%-79% of the teachers rated themselves as performing sufficiently or very well.

The components where they feel they are performing best are personal qualities, communications, critical/creative thinking and decision-making, in all of which 70% or more felt their teaching was sufficient or very good. The criteria on which these self-assessments were based were as follows:

⁶Source: Ibid. *New Directions in Enterprise Education*

Personal qualities:

- The development of a positive, integrated self-image.
- Taking responsibility for successes and failures.
- Establishing goals and taking steps to attain them.
- Understanding the importance of optimism and determination in the pursuit of goals.
- Taking personal risks and learning from mistakes.
- Being open-minded and receptive to change.

Communications:

- Listening critically, observing and being attentive.
- Articulating ideas clearly, coherently and enthusiastically.
- Reading and being able to determine the validity and reliability of pertinent documents.
- Writing clearly, correctly and coherently.
- Stimulating presentation of ideas and products.

Critical/creative thinking:

- Exploring ideas and alternatives.
- Establishing criteria to evaluate ideas.

Decision-making:

- Diagnosing a situation.
- Identifying a problem.
- Collecting data.
- Analyzing and evaluating the data.
- Choosing the best solution.

The second part of the teacher questionnaire related to strategies and resources used to teach the components of entrepreneurship. The teachers were asked to assess the effectiveness of 16 strategies and indicate how much they used each of them. In Table 5.4 on the next page, the strategies are ranked in order of effectiveness.

It is clear that the teachers are using three strategies most heavily - discussion, questions and answers and lecturing - but they consider only the first two of these to be really effective. Most important, three of the strategies they consider most effective are *not* being used extensively, particularly video presentations and group projects, which they use only sometimes. Equally, there is room for greater use of games and simulations and case studies, which are highly effective in universities and community colleges.

Table 5.4 ⁷
Teaching strategies that work best

Ranking of the effectiveness of 16 teaching strategies for enterprise education in a survey of teachers in the region; and an assessment by the same teachers of the extent to which they use each of the strategies. Atlantic region, 1990

Rank	Teaching strategies for enterprise education	Extent of usage by teachers‡
MOST EFFECTIVE*		
1	Discussion	Extensively
2	Questions and answers	Extensively
3	Video presentations	Sometimes
4	Independent student work	Regularly
5	Group projects	Sometimes
SOMEWHAT EFFECTIVE*		
6	Lecturing	Extensively
7	Games and simulations	Occasionally
8	Case studies	Occasionally
LEAST EFFECTIVE*		
9	Field trips	Rarely
10	Use of computers	Occasionally
11	Business experience	Rarely
12	Interviews with entrepreneurs	Rarely
13	Entrepreneurs visiting classrooms	Rarely
14	Audio presentations	Occasionally
15	Conferences on entrepreneurship	Rarely
16	Practical placements	Rarely

*Notes: * The strategies listed as most effective were rated by 60% or more of the teachers as being effective or very effective; the strategies listed as somewhat effective were rated as effective or very effective by roughly half the teachers; the least effective strategies were ranked as effective or very effective by 45% or fewer of the teachers. These percentages combine the rankings of elementary and secondary teachers.*

‡ The ranking of the extent of usage was determined as follows:

<i>Extensively</i>	<i>Used often/always by more than 50% of the teachers and used sometimes by more than 25%</i>
<i>Regularly</i>	<i>Used often/always by almost 50% of the teachers and sometimes by about 25%</i>
<i>Sometimes</i>	<i>Used often/always by more than 25% and used sometimes/often/always by more than 70%</i>
<i>Occasionally</i>	<i>Used sometimes/often/always by 26% to 50% of the teachers</i>
<i>Rarely</i>	<i>Used sometimes/often/always by 25% or less of the teachers.</i>

⁷Source: Ibid. *New Directions in Enterprise Education*

It is worth noting that teachers do not consider interviews with entrepreneurs and classroom visits of entrepreneurs to be much help; these rank 12th and 13th. Also, they ranked practical placements last. By contrast, studies conducted in the U.S. have shown that case studies, classroom visits by entrepreneurs and project work are the *most* effective teaching tools.

In terms of the teaching resources available to them, the teachers are generally not impressed. Only about a third are satisfied with the access to resource people, computer access for course preparation, computer access for students, curriculum guides and textbooks. Less than a quarter were satisfied with audio resources, supplementary reading material and visual presentation. The only resource that was rated adequate or very adequate by more than half the teachers was newspapers and magazines.

The business community's perspective

Businesspeople are, as might be expected, highly supportive of enterprise education in the schools. In a survey of 115 anglophone businesspeople in the region, more than 85% said they believed that all three of the principal groups of components of entrepreneurship (values, skills and knowledge) *could* be taught in school. A marginally smaller proportion (84%) believed that it was important or very important to teach values and skills, but only 62% believed the same thing for knowledge components. Their assessment of the importance to the business world of the three groups of entrepreneurial components was consistent - 95% believed that values are important or very important, 92% felt the same about skills and 69% about knowledge.

These people had been in business slightly longer than the average for the region (40% between two and nine years and only 10% less than two years) and almost 60% of them were owner-managers. They were mostly small firms, 40% of them having annual revenues of less than \$½ million; only 12.5% had annual sales of more than \$5 million.

The respondents were enthusiastic about participating in education in order to provide students with a more accurate view of business life; 92% said business should become involved and 85% said they were prepared to become involved them-

selves. This may be an unreliable result, however, as the response rate to the survey was 8% and there may have been some self-selection that would skew the results to people who were strongly interested in education in the first place.

More definitive insights were obtained from the respondents' suggestions as to the best way for them to become involved.

It is interesting to note that the method considered to be the most effective for businesspeople (work experience) is the one considered the least important by teachers (practical placement). Talking to students and teachers ranked third among businesspeople, as Table 5.5 shows, whereas it ranked three or four places above last with teachers. Finally, having businesses profiled on video or in case studies ranked seventh, compared to third and eighth respectively in the teachers' rankings. This indicates a bias among businesspeople to "show" rather than "tell" and to do so face to face rather than through a medium like cameras or books.

Table 5.5⁸
How business wants to help

Proportion of businesspeople who rate as important or very important nine suggested ways in which they could participate in education, ranked by order of importance. October, 1990

Rank	Methods of participation	Proportion who rate it important	Proportion willing to participate
1	Giving students work experience	76%	58%
2	Sponsoring Junior Achievers	65%	38%
3	Talking to students and teachers	57%	66%
4	Serving on curriculum committees	54%	47%
5	Participating in "career fairs"	50%	42%
6	Serving on the education committee of the Chamber of Commerce	36%	26%
7	Business profiles on video or in case studies	35%	23%
8	Serving on the school board	31%	16%
9	Speaking at graduations	23%	21%

⁸Source: Ibid. *New Directions in Enterprise Education*

It is also noteworthy that the businesspeople are less inclined to participate when offered specific projects than when they are asked a general question. It was mentioned earlier that 85% wanted to be involved in education, but Table 5.5 shows that less than 80% on average wanted to participate in specific activities. This "gap" is particularly large for sponsoring Junior Achievers, profiling their companies on video or in case studies and in serving on school boards, in all of which less than two thirds of those who said these were important methods were prepared to participate themselves. The most popular forms of participation were speaking engagements, to either classes or graduation ceremonies.

The reason for this becomes clear when the businesspeople described the obstacles for their participation: three quarters cited time constraints, which militate against open-ended commitments. The other significant obstacle, mentioned by 11%, was the feeling that their opinions would not be valued by the students.

A similar study was made of 151 francophone businesspeople, who have a profile quite similar to that of the anglophone businesspeople, and 56 employees of support agencies (like chambers of commerce, or development commissions). The approach was significantly different, so it is difficult to compare the results of the two surveys. However, the francophones are just as enthusiastic as the anglophones about the importance of enterprise education; in general, the views expressed by the francophones are remarkably similar to those of the anglophones:

- The francophones were more convinced than the anglophones about the importance of any type of business participation in enterprise education; every one of the seven options they were given was ranked as important or extremely important by at least three quarters of them. "Speaking to businesspeople" received the highest rating, at 92% and "work experience" the lowest, at 77%.
- Like the anglophones, however, the percentage who said they would participate personally was somewhat lower. The most popular forms of participation were "speaking with students" (64%) and "training in a business" (63%); these are the same priorities accorded by the anglophones.

- The perception of obstacles to participating in enterprise education was identical for the two language groups.
- The entrepreneurs considered the component of entrepreneurship that was most important to teach to be communication, while the support agencies favoured critical and creative thinking, problem solving and decision making.

The post-secondary perspective

To complete the review of the environment for enterprise education in the Atlantic provinces, the PEP team surveyed 13 teacher-training institutions and six community colleges in the region to ascertain their interest in and commitment to entrepreneurship.

The institutions surveyed were:

Table 5.6
Post-secondary institutions surveyed in PEP

Teacher-training institutions and community colleges that participated in the survey of post-secondary institutions for PEP. October, 1990

Province	Teacher-training institutions	Community Colleges
New Brunswick	1. Mount Allison University 2. St. Thomas University 3. University of New Brunswick 4. Université de Moncton	1. New Brunswick Community College, Moncton campus 2. New Brunswick Community College, Saint John campus 3. Collège communautaire de Dieppe
Newfoundland	5. Memorial University	4. Western Community College
Nova Scotia	6. Acadia University 7. Dalhousie University 8. Mount St. Vincent University 9. Nova Scotia Teachers College 10. St Francis Xavier University 11. St Mary's University 12. Université Sainte-Anne	5. University College of Cape Breton
Prince Edward Island	13. University of Prince Edward Island	6. Holland College

The findings showed that education departments of the universities were generally not interested in the discipline, while

the anglophone community colleges were both interested and active. Only one francophone community college was surveyed and it offered only one course in management of small and medium enterprises.

Only two of the university departments of education said they had projects or activities in entrepreneurship education designed for preservice instruction and only one of these has co-operated with other institutions or departments in its projects; only one is planning an extension of its entrepreneurship activities; and only two viewed entrepreneurship positively, although another three expressed support for the concept (four rated it a low priority and one viewed it negatively, out of tune with its liberal arts tradition). Only two believed that entrepreneurship education should form part of preservice education for teachers, although four others said that if entrepreneurship became a part of the curriculum in schools, they would respond with preservice courses to train the teachers.

The picture is radically different in the five anglophone community colleges. Four of them have ongoing projects in the discipline; four reported several layers of co-operation with other departments or institutions; and four are planning to extend their commitment to the discipline. Entrepreneurship education is viewed as a "high priority" by two, "important" by another two and "of interest" by the fifth.

It seems fair to conclude that the education departments in the universities will not commit themselves to major expansions of their entrepreneurship programs until entrepreneurship becomes a more high-profile part of the school curricula. Community colleges, on the other hand, have already jumped into the field whole heartedly. There is now a good foundation on which to build a greater appreciation among teachers of the value of entrepreneurship, but there is still a long way to go before the objective is achieved.

CHAPTER 6

A FRAMEWORK FOR ENTREPRENEURSHIP

Entrepreneurship is, by nature, a phenomenon little suited to external guidance. It is therefore a delicate task for governments and their agencies to encourage its development. It is becoming increasingly clear, however, that the needs of entrepreneurial firms are quite different from those of big firms. Big firms are administratively self-sufficient. Their needs from governments are, firstly, to engineer a compatible environment in fiscal and monetary policy, labour legislation and training; and secondly, to invest public funds in projects that would not otherwise be commercially viable.

Small and entrepreneurial firms need all these environmental conditions too, but they tend to take the existing environment as a given, because they have relatively little influence. They need direct financial assistance, of course, provided they do not have to jump through too many hoops designed to prevent abuse in the investment of public funds. They need an educated and motivated workforce, of course, from which to draw their employees. But their most pressing needs go beyond equity and education. Small and entrepreneurial firms need the supportive mechanisms that can enable them to be more effective in their business decisions. This includes a social environment that is receptive to putative as well as existing entrepreneurs, counselling that can help them through challenging periods in the evolution of their businesses and access to the information they need to expand their markets and refine their management.

As it happens, this re-ordering of priorities is compatible with the evolving pressures on governments, which are under pressure to control spending. The emphasis in the government's role is shifting toward nurturing the kind of people who are sympathetic to careers in entrepreneurial firms and fostering an understanding that there is an important role for entrepreneurial firms to play in economic development.

This chapter will review a recent survey¹ of businesspeople in Atlantic Canada, whose views on what roles governments can most usefully play are, at times, surprising. The survey provides an important framework for an evaluation of the road ahead in the development of entrepreneurship in the region.

A survey of business needs

Businesses in Atlantic Canada are saying that they no longer consider the priorities of governments in its dealings with business to be those issues that have been emphasized in the past, namely direct financial assistance and an aggressive procurement policy that favours local business. Instead, they would like to see programs that help them, most of all, with developing their human resources and with promotion of trade and investment, as Table 6.1 shows.

Table 6.1²
What business wants from government

Percentage of businesses ranking seven types of economic development support by governments as very important, somewhat important and not very important. Atlantic Canada, 1991

Type of economic development support	Very important	Somewhat important	Not very important
Human resource development	73%	22%	4%
Promotion of trade & investment	67%	25%	5%
Development of entrepreneurship	64%	28%	6%
Diversifying the economy	64%	26%	5%
Technological innovation	62%	31%	4%
Investment support	48%	35%	11%
Government purchasing/procurement	42%	42%	17%

The survey, which contacted more than 1,000 businesses in the region, found that the development of entrepreneurship

¹Source: *Survey of Business Needs in Atlantic Canada*, prepared for the Atlantic Provinces Chamber of Commerce by Omnifacts Research. May, 1991

²Source: Ibid. *Survey of Business Needs in Atlantic Canada*

ranks third in the priority list, with 64% saying it is very important, 28% somewhat important and 6% not very important. Support for entrepreneurship is least in manufacturing and the resource industries, where only 54% and 46% respectively say it is very important. Support is highest in finance, insurance and real estate, where 70% believe it is very important. Since 80% of these firms had fewer than 25 employees, the response of their owners and presidents to the survey questionnaire is a reasonable indicator of the views of small and entrepreneurial firms.

When the results are broken down by province, Newfoundland emerges as having sharply different perceptions. The province's expectations of governments are significantly higher in all areas. On average, taking all seven types of economic development support together, 72% of the Newfoundland businesses ranked government support as very important, compared to 55% in the other three provinces. The area where Newfoundlanders differ least from businesses in the other three provinces is promotion of trade and investment, which ranks fourth (75%) on their priority list, compared to second (65%) for businesses in the other three provinces. The greatest divergence was in their views on government procurement, which 52% ranked as very important in Newfoundland, compared to only 29% in the other three provinces.

The low priority attached to procurement is something of a surprise, given the perception of regional reliance on government business. A sixth of the respondents consider procurement to be *not* very important, compared to 11% for investment support and 4% or 5% for the other five support programs. In fact, however, annual sales to the federal government constitute less than 5% of annual sales for 70% of the respondents. Only 4% do more than a quarter of their total business with the federal government. This does not appear to reflect any sense of inability to compete, however; 55% say they can compete successfully and only 13% say they cannot. Among those who say they cannot compete, the most important reasons given are inability to compete with big companies (38%), prices are too low (14%) and politics or patronage (10%).

On the question of the adequacy of the support provided to entrepreneurs by governments in Atlantic Canada, the respondents to the survey were evenly divided. The most

appreciated program is management training, where 60% of those who had an opinion said that the programs were adequate. The biggest gap in government programs was considered to be access to equity financing, where 59% of the respondents said the existing programs were inadequate. A small majority (about 55%) felt that programs were adequate in information on government assistance, access to skilled labour, direct financial assistance, counselling and guidance and access to science and technology. A slim majority considered government programs on information on marketing opportunities to be inadequate (52%).

This last opinion is at odds with the response to another question in the survey asking them to rate the importance of marketing information. Between a quarter and a third did not believe they had any need for information on technology innovation and developments, local area populations, local area income levels and Atlantic region markets. The balance of the respondents were evenly split on whether this information was very important or somewhat important. Other marketing information was not considered useful at all. More than half rated information on tariffs and markets in the rest of Canada, the U.S., Europe and Asia to be not at all important. Only 5% or 6% rated Europe and Asia as very important; only 18% rated information on Canadian markets as very important.

Rather than information on markets, businesses in the region seem to prefer training programs for export development, which were rated as very important by half the respondents. Another 35% said such programs are somewhat important and only 10% said they were not important at all. Businesses were less enthused with the idea of establishing trading houses, which was ranked as very important by 39% of the respondents. They were even less enthused with the establishment of government offices abroad, which was ranked very important by only 21%.

Human resource development

There is clear agreement, in terms of the biggest priority for government programs identified by the survey, that human resource development represents a major challenge to business

in the region. Close to half the businesses (42%) reported at least one occupation in which they had a current or expected shortage of skilled employees. Another 10% reported a second occupation in which shortages are looming. Almost all these shortages were current (73%) or expected to occur in the subsequent 12 months (12%).

The most important reason cited for the shortages was lack of available training (29%). For many, there were simply not enough skilled people (22%) or demand for the skills exceeded supply (21%); since these two are similar responses, the proportion mentioning one or the other would probably make this the biggest cause of the shortages. Another 14% attributed the shortages to inadequate training programs, while only 6% felt that low wages were the cause.

The most popular source of skilled employees was to hire them from other companies (19%). This was particularly popular in the construction industry (34%). After that, the region's businesses rely most on the education system, notably technical schools (16%), community colleges (11%), industry associations (10%, mainly in the resource industries) and universities and colleges (9%). The respondents considered these institutions to be reasonably effective in meeting their training needs: 80% rated community colleges and employers as somewhat or very effective. They did not set much store by government programs, however, probably because there is limited awareness of what is available in this area; 52% rated provincial government training programs as somewhat or very effective, compared to 43% for federal programs.

On-the-job training was mentioned as a source of skilled workers by only 8% of the respondents. Although 72% of the region's businesses have some form of in-house training, almost half of them (42%) said they needed assistance and resources to do a proper job.

There was little agreement on the best solution to the shortage of skilled workers. More than a quarter could not identify any useful steps that could be taken. For the most part, they suggested more of what already exists: more and better training programs, co-operative training between educational institutions and businesses and more education.

The road ahead for entrepreneurship

With this perspective in mind, the ultimate purpose of programs designed to assist the development of entrepreneurship can be delineated as follows:

- to increase the number of people in the region who have the motivation and competence to start a new business;
- to increase the rate of new business formation;
- to increase survival and growth rates of existing businesses; and
- to enhance general economic growth through job creation, job preservation, innovation, import substitution, export development and wealth creating activity.

The long-range objective is to create an environment in which entrepreneurship is widely perceived as an attractive and feasible career/employment option, to contribute to increased job creation, to increase the wealth generating ability of the region and to build the overall level of self-reliance and confidence of Atlantic Canadians. This can be achieved through the following initiatives:

1. *Programs that are designed to promote entrepreneurship, to profile local entrepreneurs, to reward and recognize existing entrepreneurial success.* This will create greater awareness and interest in entrepreneurship as a viable employment alternative, enhancing its desirability, feasibility and social value. It will also create a more hospitable environment in the business world generally for entrepreneurial firms.

2. *Education programs (institutional and community based) that enhance awareness of entrepreneurship as a career option and expose people to the discipline and practice of venturing (including tools and techniques).* Orientation and training programs can increase the knowledge, competence and ability of new entrepreneurs and decrease the failure rate.

3. *Counselling facilities that are accessible and effective.* Firms that develop difficulties in the course of a growth spurt or a sharp setback, they need prompt assistance. These facilities need to be designed especially for small firms, whose needs are

quite different from those of larger firms. Effective counselling facilities can improve the survival rates of existing firms.

4. *Facilitation of entrepreneur networks.* These can enhance the learning experiences of entrepreneurs and broaden the base of community resources and contacts, which, in turn, can help entrepreneurs acquire management and leadership skills as well as improve their market penetration.

5. *Co-ordination of all support services to entrepreneurs, with a view to making them much more accessible.* There are already many valuable programs available to entrepreneurs, many of whom are not even aware of their existence. Since many entrepreneurs who are in trouble are not cognisant of their precise needs or where to go for help, they often need a co-ordinator to steer them in the right direction.

6. *Improving the availability of appropriate and accessible debt/equity financing instruments.* By providing risk sharing with new entrepreneurs, governments can make it possible for people with ideas to develop them into opportunities. The largest market gap today is in startup funding.

7. *Continuing research efforts to develop a better understanding of the status and evolving nature of various aspects of entrepreneurial activity in the region.*

These are the tools of an entrepreneurship development program. They assume a partnership between government, the media, the education system, the financing community and the community at large in the development of the region through entrepreneurship.

This report has shown that elements of a new wave of entrepreneurship are already in place in Atlantic Canada. It has demonstrated the role for entrepreneurship development as a primary tool in the economic development of the region. And it has shown the first signs of an emerging consensus between government and business on the priorities for this new approach to economic development.

ABOUT ACOA

The **Atlantic Canada Opportunities Agency (ACOA)** is a federal government development agency established in 1987 to promote economic development throughout Atlantic Canada. ACOA seeks to stimulate the entrepreneurial spirit that exists in Atlantic Canada while promoting Atlantic Canadian products in domestic and foreign markets.

ACOA sustains and fosters economic growth by working with small and medium-sized businesses as well as with not-for-profit economic partners such as universities, research institutes and business associations. ACOA provides people with business and financial support to help them successfully compete in the marketplace. In addition, ACOA manages the federal government's regional development programs and plays a major role in shaping federal economic policy that affects the region.

ACOA was originally set up with four very distinct mandates:

ACTION: Small and medium-sized businesses can obtain financial assistance through the Action Program to carry out feasibility and market studies, design new products or develop new technology, undertake capital investments and implement marketing plans.

COOPERATION: ACOA cooperates with the provincial and municipal governments, and with public institutions such as universities, research centres and industrial commissions to support private sector growth. This includes negotiating federal/provincial agreements that address a broad range of economic needs in Atlantic Canadian industries.

COORDINATION: Coordinating the economic development efforts of the federal government as a whole in Atlantic Canada is part of ACOA's mandate. These have been demonstrated through major projects

such as Hibernia and alternatives to the closure of CFB Summerside.

ADVOCACY: Advocating the interests of Atlantic Canadians when national economic policy and spending decisions are being made is a primary focus of the Agency. ACOA ensures that local companies have a fair opportunity to bid on procurement contracts by providing a link between local suppliers and national purchasers.

With its innovative mandate, and the experience it has gleaned over the years, ACOA is now in a unique position to address some of the fundamental issues that affect the economic climate of Atlantic Canada. ACOA listens to what Atlantic Canadians have to say and has been flexible. ACOA recently developed new programs and enhanced existing ones to complement its original mandate, after extensive consultations with the businesspeople of this region. These are:

Marketing Assistance Program: to promote the development and use of professional marketing expertise to market Atlantic Canadian products;

Atlantic Canada Supplier Development Program: to assist companies to compete for government contracts;

Fisheries Alternatives Program: to assist in the economic diversification of communities affected by the downturn in the Atlantic fishery and create jobs for displaced workers;

ACOA Action Loan Program: targeted at companies which have a great potential for growth and a need for larger amounts of assistance.

As ACOA strives to continually respond to the demands of a changing economy, it has focused on key economic development issues in which it has a role to play:

Innovation and Technology Transfer: a key to improving the region's competitiveness;

Entrepreneurship Development: to promote business ownership and self-employment as viable options;

Trade and Investment Promotion: to increase the number of traders and the amount of strategic investment in Atlantic Canada;

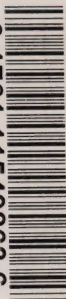
Human Resource Development: to foster a human resource development culture that advances the value of "human capital";

Procurement and Industrial Benefits: to ensure that more high quality contracts and long-term industrial benefits flow to Atlantic industry;

Program Development: improving program delivery will continue to be a priority, including reducing the turnaround time on client applications.

ACOA's efforts hinge on the entrepreneurial and competitive spirit of Atlantic Canadians. ACOA can enhance the economic climate but the energy, creativity and know-how rests with the people of Atlantic Canada. Together, ACOA and Atlantic Canadians are progressing towards a more prosperous future.

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